PROCEEDINGS

OF

SELECT STANDING COMMITTEE

OF THE

HOUSE OF COMMONS

ON

BANKING AND COMMERCE

March 6, 1934, to June 14, 1934

Bill No. 18, An Act respecting Banks and Banking;
Bill No. 19, An Act to incorporate The Bank of Canada

FIFTH SESSION OF THE SEVENTEENTH PARLIAMENT OF CANADA

PRINTED BY ORDER OF PARLIAMENT

OTTAWA
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PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1934

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MEMBERS OF COMMITTEE

(RICHARD B. HANSON, Esq., *Chairman*)

Messieurs

Arthurs,	Hackett,	Perley *(Qu'Appelle)*,
Baker,	Hanson *(York-Sunbury)*,	Power,
Beynon,	Harris,	Ralston,
Bothwell,	Howard,	Raymond,
Bowman,	Hurtubise,	Rhodes,
Casgrain,	Irvine,	Robinson,
Chaplin,	Jacobs,	Sanderson,
Coote,	Lapointe,	Smith *(Cumberland)*,
Donnelly,	Laurin,	Smoke,
Dorion,	Lawson,	Spencer,
Duff,	Mackenzie *(Vancouver Centre)*,	Stanley,
Ernst,	MacMillan *(Saskatoon)*,	Sullivan,
Euler,	McGibbon,	Vallance,
Fraser *(Cariboo)*,	McPhee,	White *(London)*,
Fraser *(Northumberland, O.)*,	Mercier *(St. Henri)*,	White *(Mount Royal)*,
Gagnon,	Michaud,	Willis—50
Geary,	Morand,	

(Quorum 15)

T. L. McEVOY,
Clerk of the Committee.

ORDERS OF REFERENCE

House of Commons,

Tuesday, February 6, 1934.

Resolved,—That the following members do compose the Select Standing Committee on Banking and Commerce:—

Messieurs

Arthurs,
Baker,
Beynon,
Bothwell,
Bowman,
Casgrain,
Chaplin,
Coote,
Donnelly,
Dorion,
Duff,
Ernst,
Euler,
Fraser *(Northumberland, O.)*,
Gagnon,
Ganong,
Geary,
Hackett,
Hanson *(York-Sunbury)*,
Harris,
Howard,
Hurtubise,
Irvine,
Jacobs,
Lapointe,
Laurin,
Lawson,
Mackenzie *(Vancouver Centre)*,
MacMillan *(Saskatoon)*,
McGibbon,
McPhee,
Mercier *(St. Henri)*,
Michaud,
Morand,
Perley *(Qu'Appelle)*,
Pettit,
Power,
Ralston,
Raymond,
Rhodes,
Robinson,
Sanderson,
Smoke,
Spencer,
Stanley,
Stevens,
Sullivan,
Vallance,
White *(Mount Royal)*,
Willis—50

(Quorum 15)

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

Tuesday, February 6, 1934.

Ordered,—That the Select Standing Committee on Banking and Commerce be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, March 1, 1934.

Ordered: That the following Bill be referred to the said Committee:—Bill No. 18, An Act respecting Banks and Banking.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MONDAY, March 5, 1934.

Ordered: That the name of Mr. Smith (*Cumberland*) be substituted for that of Mr. Ganong on the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

TUESDAY, March 6, 1934.

Ordered: That the said Committee be given leave to print from day to day one thousand copies in English and five hundred copies in French of the minutes of the proceedings of the Committee and of the evidence, if any, to be taken before the Committee, together with such papers and documents as may be incorporated with such evidence; and that Standing Order 64 be suspended in relation thereto.

Ordered: That the said Committee be granted leave to sit while the House is sitting.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

FRIDAY, March 9, 1934.

Ordered: That the following Bill be referred to the said Committee:—Bill No. 19, An Act to incorporate the Bank of Canada.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

TUESDAY, March 13, 1934.

Ordered: That the following Bill be referred to the said Committee:—Bill No. 33, An Act to amend the Quebec Savings Banks Act.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

FRIDAY, March 16, 1934.

Ordered: That the said Committee be empowered to appoint and employ counsel to assist in investigating the matters and things referred to them by the House.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MONDAY, March 19, 1934.

Ordered: That the name of Mr. Fraser (*Cariboo*) be substituted for that of Mr. Stevens on the Select Standing Committee on Banking and Commerce.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MONDAY, May 21, 1934.

Ordered: That the name of Mr. White (*London*) be substituted for that of Mr. Pettit on the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORTS TO THE HOUSE

FIRST REPORT

HOUSE OF COMMONS,
TUESDAY, March 6, 1934.

The Select Standing Committee on Banking and Commerce begs leave to present the following as a

FIRST REPORT:

Your Committee recommends that one thousand copies in English and five hundred copies in French of the minutes of the proceedings of the Committee and of the evidence, if any, to be taken before the Committee, together with such papers and documents as may be incorporated with such evidence, be printed from day to day; and that Standing Order 64 be suspended in relation thereto.

Your Committee further recommends that it be granted leave to sit while the House is sitting.

All of which is respectfully submitted.

R. B. HANSON,
Chairman.

THIRD REPORT

HOUSE OF COMMONS,
FRIDAY, March 16, 1934.

The Select Standing Committee on Banking and Commerce begs leave to present the following as a

THIRD REPORT:

Your Committee recommends that it be empowered to appoint and employ counsel to assist in investigating the matters and things referred to your Committee by the House.

All of which is respectfully submitted.

R. B. HANSON,
Chairman.

FIFTH REPORT

HOUSE OF COMMONS,
THURSDAY, May 17, 1934.

The Select Standing Committee on Banking and Commerce begs leave to present the following as a

FIFTH REPORT:

Your Committee has duly considered Bill No. 18, An Act respecting Banks and Banking and has agreed to report the said Bill with amendments.

All of which is respectfully submitted.

R. B. HANSON,
Chairman.

SIXTH REPORT

HOUSE OF COMMONS,
WEDNESDAY, June 6, 1934.

The Select Standing Committee on Banking and Commerce begs leave to present the following as a

SIXTH REPORT:

Your Committee has duly considered Bill No. 19, An Act to incorporate The Bank of Canada and has agreed to report the said Bill with amendments.

All of which is respectfully submitted.

R. B. HANSON,
Chairman.

SEVENTH REPORT

HOUSE OF COMMONS,
THURSDAY, June 7, 1934.

The Select Standing Committee on Banking and Commerce begs leave to present the following as a

SEVENTH REPORT:

Your Committee has duly considered Bill No. 33, An Act to amend the Quebec Savings Bank Act and has agreed to report the said Bill with amendments.

R. B. HANSON,
Chairman.

EIGHTH REPORT

HOUSE OF COMMONS,
THURSDAY, June 14, 1934.

The Select Standing Committee on Banking and Commerce begs leave to present the following as an

EIGHTH REPORT:

Your Committee has considered, during this session, inter alia, Bill No. 18, An Act respecting Banks and Banking, which was reported to this House, with amendments, on May 17, last.

At the first meeting of the Committee, on May 6, last, it was moved by Mr. Power, seconded by Mr. Vallance:—

That before proceeding to the consideration clause by clause, of Bill No. 18, the Select Standing Committee on Banking and Commerce inquire into:—

1. The interlocking of directorates as between banks, trust companies, insurance companies and important industrial concerns and the effect of such interlocking directorates on the general financial and economic condition of the country;

2. The general policies adopted by the chartered banks to combat the effects of the depression, and to what extent the said banks are responsible for the drastic deflation from which the country suffered and is still suffering;

3. The circumstances which brought about the enactment of Order in Council, P.C. 2693, of October 27, 1931, permitting the chartered banks to show investment securities in their monthly and annual financial statements at a valuation other than the actual or market value thereof;

4. Relations of the chartered banks to the wheat pools, and the extent to which the guarantees by the Dominion Government to the banks of the said pools' grain market account was utilized for the purpose of speculating in wheat on the Winnipeg or Chicago grain pits;

5. The relationship between the chartered banks or any of them and the Canadian Pacific Railway Company and the circumstances which brought about the guarantee by the Dominion of Canada of a loan of sixty million dollars to the said Railway Company;

6. The relationship between the banks or any of them and the pulp and paper industry and the extent to which the uncontrolled extension of credit brought about over-capitalization and over-expansion and the subsequent disorganization and near bankruptcy of an industry dealing in some of the most valuable of our natural resources.

And for the purposes of obtaining information on the matters and things hereinabove enumerated, witnesses shall be called, including Sir Herbert S. Holt, K.B., President, The Royal Bank of Canada, Sir Charles B. Gordon, G.B.E., President, Bank of Montreal, and such other bank presidents and directors as the Committee may deem it advisable to summon.

And that counsel learned in the law shall be appointed to assist the Committee in its investigation.

Your Committee decided to accept this as a notice of motion.

It was later resolved that the subject matter of the motion hereinbefore set out be discussed when the cognate sections of Bill 18 would be under consideration and that a sub-committee, to be appointed, should determine the witnesses to be summoned and the order of their appearance before your Committee.

Since its original sitting your Committee held 47 meetings and heard 25 witnesses.

A Copy of the Minutes of Proceedings and Evidence is tabled herewith.

The Minutes of Evidence also contain the submissions of certain witnesses in connection with the consideration of Bill No. 19, An Act to incorporate The Bank of Canada, which was referred to your Committee on March 9, last, and was reported, with amendments, on June 6, instant.

Your Committee recommends that the orders of reference, reports, proceedings and evidence, together with a list of the exhibits, be printed both as an appendix to the Journals of the House and in blue book form, 1,000 copies of the latter form to be printed in the English language and 500 copies in the French language; and that Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

R. B. HANSON,
Chairman.

(For concurrence: See Journals, page 474.)

(The following reports concern Private Bills and are, therefore, not set out here: Second, Fourth, Ninth, Tenth and Eleventh.)

LIST OF WITNESSES

Beatty, E. W., K.C., President, Canadian Pacific Railway Company.

Bennett, R. B., Rt. Hon., P.C., K.C., M.P., Prime Minister of Canada.

Chahoon, George, Jr., Three Rivers, Quebec, and Montreal, Quebec.

Clark, W. C., Ph.D., Deputy Minister of Finance, Ottawa.

Dodds, Jackson, President, Canadian Bankers' Association, and General Manager, Bank of Montreal.

Douglas, Major C. H., R.A.F. (Res.), M.I. Mech. E., M.I.E.E., London, England.

Gordon, Sir Charles B., G.B.E., President, Bank of Montreal.

Gordon, Lt.-Col. H. D. Lockhart, President, The Institute of Chartered Accountants of Ontario, Toronto, Ontario.

Gundy, J. H., Toronto, Ontario.

Henwood, H. B., General Manager, The Bank of Toronto, Toronto, Ontario.

Holt, Sir Henry S., K.B., President, The Royal Bank of Canada, Montreal, Quebec.

Logan, S. H., General Manager, The Canadian Bank of Commerce, Toronto, Ontario.

McFarland, John I., General Sales Manager, Canadian Co-operative Wheat Producers, Limited, Winnipeg, Manitoba.

McGeer, G. G., K.C., M.L.A., Vancouver, British Columbia.

McKee, George M., Assistant to President (i/c Operations), Consolidated Paper Corporation, Montreal, Quebec.

Mapp, K. A., Secretary, The Institute of Chartered Accountants of Ontario, Toronto, Ontario.

Patterson, H. F., General Manager, The Bank of Nova Scotia, Toronto, Ontario.

Pitfield, Ward C., President, The Canadian Investment Bankers' Association, Montreal, Quebec.

Reed, J. B., Financial Secretary (Quebec Branch), United Farmers of Canada, North Hatley, Quebec.

Roberts, B. J., Comptroller, Government Guarantee Branch, Department of Finance, Ottawa, Canada.

Tompkins, C. S., Inspector General of Banks, Department of Finance, Ottawa, Canada.

Whitehead, C. R., Assistant to President (i/c General Business), Consolidated Paper Corporation, Montreal, Quebec.

Wilson, M. W., General Manager, The Royal Bank of Canada, Montreal, Quebec.

Woodward, E. S., National Executive Secretary, The Free Economy League of Canada, Vancouver, British Columbia.

Young, David, President, The Society of Chartered Accountants of the Province of Quebec, Montreal, Quebec.

LIST OF EXHIBITS

Exhibit 1: Certified copy of Order in Council, P.C. 2490, dated November 29, 1934, *re* guarantee of loan of $60,000,000 to Canadian Pacific Railway Company. (Printed in minutes of evidence at page 161.)

Exhibit 2: Sessional Papers 150D and 150E: Copies of correspondence between the Government of Canada, or any member thereof, and the Bank of Montreal and the Canadian Pacific Railway Company with reference to the said loan. (Letters referred to are printed in minutes of evidence at pp. 145, 150.)

Exhibit 3: Certified extract from minutes of meeting of Board of Directors of Canadian Pacific Railway Company, held on June 12, 1933, whereat authority was granted certain officers of the Company to borrow stated sums and to pledge certain securities. (Not printed.)

Exhibit 4: Copy of note, dated June 22, 1933, signed by the President and the Secretary of the Canadian Pacific Railway Company covering a loan of $13,093,000 from Bank of Montreal, that bank's share of first instalment of loan. (Not printed.)

Exhibit 5: Copy of note, dated December 1, 1933, signed by the President and the Secretary of the Canadian Pacific Railway Company covering loan of $9,351,000 from the Bank of Montreal, remainder of that bank's share of loan. (Not printed.)

Exhibit 6: Statement, dated September 25, 1933, signed by E. E. Lloyd, Esq., Treasurer, Canadian Pacific Railway Company. (Printed in minutes of evidence at pp. 145-6.)

Exhibit 7: Annual Report, 1931, of Canadian Pacific Railway Company. (Not printed.)

Exhibit 7a: Annual Report, 1932, of Canadian Pacific Railway Company. (Not printed.)

Exhibit 8: Letter dated May 31, 1933, from the Right Honourable the Prime Minister of Canada to the President of the Bank of Montreal. (Printed in minutes of evidence at p. 150.)

Exhibit 9: Statement shewing fluctuations of price of stock of Canadian Pacific Railway Company between the years 1924 and 1933, both inclusive. (Printed in minutes of evidence at p. 177.)

Exhibit 10: Statement of obligations of Canadian Pacific Railway Company to and balances with the Bank of Montreal from March, 1931, to date. (Printed as Appendix "A".)

Exhibit 11: Schedule giving particulars of allotments of $60,000,000 loan as between certain Canadian chartered banks. (Printed as Appendix "B".)

Exhibit 12: Letter, dated August 17, 1933, signed by W. A. Bog, of the Bank of Montreal, addressed to the Right Honourable the Acting Prime Minister. (Printed as Appendix "C".)

Exhibit 13: Letter, dated August 31, 1933, from the Right Honourable the Acting Prime Minister to W. A. Bog, Esq., of the Bank of Montreal. (Printed as Appendix "D".)

Exhibit 14: Letter, dated November 28, 1933, from General Manager of Bank of Montreal to the Right Honourable the Prime Minister of Canada. (Printed as Appendix "E".)

Exhibit 15: Statement showing payments made by Canadian Pacific Railway Company in discharge of maturing obligations from May 31 to November 1, 1933. (Printed as Appendix "F".)

Exhibit 16: Letter, dated November 5, 1933, from General Manager, Bank of Montreal, to the Right Honourable the Prime Minister of Canada. (Printed as Appendix "G".)

Exhibit 16a: Return to an Order of the Committee, dated March 6, showing: names of directors of Canadian chartered banks, the address and occupation of each director and the names of other banks, firms, companies or corporations of which the bank director is a director or member. (Printed as Appendix "H".)

Exhibit 17: Return to an Order of the Committee, dated March 6, showing a list of bank directors on other boards, when two or more belong to the same bank and the total number of directors on the board of each company concerned. (Printed as Appendix "I".)

Exhibit 18: Certified copy of P.C. 2238, dated September 12, 1931. (Printed as Appendix "J".)

Exhibit 19: Certified copy of P.C. 2239, dated September 12, 1931. (Printed as Appendix "K".)

Exhibit 20: Certified copy of P.C. 2403, dated September 28, 1931. (Printed as Appendix "L".)

Exhibit 21: Certified copy of P.C. 2977, dated November 30, 1931. (Printed as Appendix "M".)

Exhibit 22: Certified copy of P.C. 1576, dated July 11, 1932. (Printed as Appendix "M".)

Exhibit 23: Certified copy of P.C. 2077, dated September 20, 1932. (Printed as Appendix "O".)

Exhibit 24: Certified copy of P.C. 508, dated March 20, 1933. (Printed as Appendix "P".)

Exhibit 25: Certified copy of P.C. 685, dated April 12, 1933. (Printed as Appendix "Q".)

Exhibit 26: Certified copy of P.C. 746, dated April 20, 1933. (Printed as Appendix "R".)

(See statement of B. J. Roberts, Esq., as to effect of these Orders in Council, at page 219.)

Exhibit 27: Statement showing monthly expenditures on payroll account of Canadian Pacific Railway Company for year 1933, and total for same year of amount spent on payroll account for Steamships. (Printed as Appendix "S".)

Exhibit 28: Statement showing maximum, minimum and average number of employees of Canadian Pacific Railway Company for years 1929 and 1933. (Printed as Appendix "T".)

Exhibit 29: Report of Proceedings, Annual Meeting, May 3, 1933, of Shareholders of Canadian Pacific Railway Company. (Not printed.)

Exhibit 30: Certified extract from Minutes of a meeting of Board of Directors of Canadian Pacific Railway Company, on April 10, 1933. (Printed in minutes of evidence at p. 274.)

Exhibit 31: Record of dividends, from years 1920 to 1932, both inclusive, paid by Canadian Pacific Railway Company, on both Common and Preferred Stock, and the rate thereof. (Printed as Appendix "U".)

Exhibit 32: Statement showing total assets, abroad, and total liabilities, abroad, of Bank of Montreal, six months' periods, December, 1925, to December, 1927, and three months' periods, December, 1927, to November, 1929. (Printed as Appendix "V".)

Exhibit 33: Certified copy of Order in Council, P.C. 2693, dated October 27, 1931. (Printed as Appendix "W".)

Exhibit 34: Classification of borrowers at Branches of Canadian Bank of Commerce in Canada, Newfoundland, St. Pierre and Miquelon, as of November 30, 1929, and February 28, 1934. (Printed as Appendix "X".)

Exhibit 35: Return to an Order of the Committee, dated April 10th, last, viz., statement showing the difference, if any between the rates of interest charged by the Bank of Montreal on loans to municipalities in Eastern Canada and to municipalities in Western Canada, in the years 1930 to 1933, inclusive. (Printed as Appendix "Y".)

Exhibit 36: Return to an Order of the Committee, dated April 10th, last, extracts from circulars sent by Head Office, the Canadian Bank of Commerce, to Branches *re* stock loans and extracts from circulars from Head Office of said bank to branches *re* commercial loans, in the years 1927, 1928, and 1929. (Printed as Appendix "Z".)

Exhibit 37. Particulars of increases in capital stock of Canadian chartered banks, from July 1, 1923, to December 31, 1933. (Printed as Appendix "AA".)

Exhibit 38: List of shareholders' auditors of Canadian Chartered Banks, 1934. (Printed as Appendix "AB".)

Exhibit 39: Statement showing number of Canadian branches and sub-agencies of Chartered Banks closed in years 1931 to 1933, inclusive, and to the end of March, 1934. (Printed as Appendix "AC".)

Exhibit 40: 'Let's Talk Money and Banking," by Arthur I. Judge, Editor, " The Canning Trade," The Journal of the Cannel Foods Industry, Baltimore, Md. (Distributed to the Committee.)

Exhibit 41: "Money and Credit and Its Management," an address delivered by G. G. McGeer, Esq., K.C., at Annual Meeting of (B.C. Division) Canadian Credit Men's Trust Association, Vancouver, B.C., April 21, 1932. (Not printed.)

Exhibit 42: "The Conquest of Poverty," National Banking, Planned Economy and Balanced Government, A Plan for Canada, presented to Labour in a Report, upon the MacMillan Banking Commission, to the Vancouver, New Westminster and District Trades and Labour Council, by G. G. McGeer, K.C. (Not printed.)

Exhibit 43: A draft bill incorporating the Bank of Canada "empowered to manage and regulate the monetary system of the nation and to act as the Bank of the Government of the Dominion of Canada, of the Governments of the Provinces and of local governmental bodies, and also of all public utility corporations; and to provide banking facilities for industry and commerce engaged in the domestic and international trade and other commercial activities of the nation. The duty of the Bank of Canada shall be to regulate and control the creation and issue of the nation's purchasing power medium of exchange and so far as lies within its power to co-operate in controlling and protecting the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, prices, wages, and employment and to promote the stability of government, the progress of the standard of living, the going concern activity of the social and economic welfare of the people of the Dominion." (Not printed.)

Exhibit 44: Charts to which Mr. McGeer referred are printed as appendices AD(1), AD(2), AD(3), AD(4).

Exhibit 45: Suggested sample of a Gesell Scientific Currency Note. (Printed as Appendix AE.)

Exhibit 46: Return to an Order of the Committee on motion of Mr. Morand, dated April 24, 1934. (For text of order and return thereto, see Minutes of Evidence, at pp. 736-744.)

Exhibit 47: Chart showing Canadian capacity production of newsprint, 1925-1934, and United States imports of newsprint for same period. (See Appendix AF.)

Exhibit 48: Letter from J. H. Gundy to Chairman of Select Standing Committee on Banking and Commerce *re* newsprint industry. (Printed as Appendix AG.)

Exhibit 49: Chart showing (*a*) index of pulp and paper common stock prices; (*b*) index of industrial common stock prices, both adjusted to base: October, 1929 = 100. (Printed as Appendix AH.)

Exhibit 50: Letter, dated January 11, 1928, addressed to shareholders of Laurentide Company Limited, signed by G. Chahoon, Jr., President of said Company. (Printed in minutes of evidence at p. 820.)

Exhibit 51: Third Annual Report, dated February 27, 1931, of Canada Power and Paper Corporation, showing consolidated balance sheet as at December 31, 1930. (Printed in minutes of evidence at p. 827.)

Exhibit 52: First Annual Report, dated March 12, 1929, of Canada Power and Paper Corporation, showing consolidated balance sheet as of December 31, 1928. (Printed in minutes of evidence at p. 831.)

Exhibit 53: Fifth Annual Report, dated March 12, 1929, of Port Alfred Pulp and Paper Corporation, showing balance sheet as at December 31, 1928. (Printed in minutes of evidence at p. 835.)

Exhibit 54: Report of Wayagamack Pulp and Paper Company, Limited, showing balance sheet as of November 30, 1928. (Printed in minutes of evidence at p. 839.)

Exhibit 55: Second Annual Report, dated February 21, 1928, of St. Maurice Valley Corporation, showing consolidated balance sheet, December 31, 1927. (Printed in minutes of evidence at p. 843.)

Exhibit 56: Annual Report, for the year ending June 30, 1927, of Laurentide Company, Limited, containing balance sheet as of same date. (Printed in minutes of evidence at p. 847.)

Exhibit 57: Annual Report for period ending December 31, 1924, of Belgo Canadian Paper Company, Limited. (Printed in minutes of evidence at p. 849.)

Exhibit 58: (*a*) Letters from General Manager, Montreal Trust Company, dated October 7, 1929, and (*b*) dated September 26, 1929, to holders of common shares of Port Alfred Pulp and Paper Corporation; (c) form of shareholders' letter; (*d*) letter from President of Port Alfred Pulp and Paper Corporation, dated September 24, 1929, to holders of common shares of said corporation. (Printed in minutes of evidence at p. 852.)

Exhibit 59: (*a*) Letters from General Manager, Montreal Trust Company, dated October 7, 1929, and (*b*) dated September 26, 1929, to holders of common shares of Wayagamack Pulp and Paper Company, Limited; (*c*) form of shareholders' letter; (*d*) letter, dated September 24, 1929, from President of said company to shareholders of same. (Printed in minutes of evidence at p. 856.)

Exhibit 60: (*a*) Letter from Assistant General Manager, Royal Trust Company, dated January 17, 1928, to holders of common shares of St. Maurice Valley Corporation; (*b*) form of shareholders' letter; (*c*) letter from President of St. Maurice Valley Corporation, dated January 11, 1928, to said shareholders. (Printed in minutes of evidence at p. 859.)

Exhibit 61: Prospectus, dated August 6, 1926, offering $3,000,000 7 per cent Sinking Fund Cumulative Preference Shares of The Anticosti Corporation. (Printed in minutes of evidence at p. 862.)

Exhibit 62: Statement *re* Newsprint Daily Tonnage Capacities. (Printed as Appendix AI.)

Exhibit 63: Diagram showing present and future consumption of newsprint in the United States, dated December 24, 1924. (Printed as Appendix AJ.)

Exhibit 64: Balance sheet of Montreal Trust Company, as of December 31, 1933. (Printed as Appendix AK.)

Exhibit 65: (Filed on behalf of Mr. S. H. Logan, Vice-President, The Canadian Bankers' Association). Statement concerning connection of chartered banks and pulp and paper industry. (Printed as Appendix AL.)

Exhibit 66. Letter from Sir Herbert S. Holt, K.B., addressed to the Secretary of the Committee, Return to an Order of the sub-committee, dated May 23, 1934, aggregate amount of advances, as at December 1, 1926, 1927, 1928, 1929, December 31, 1933, by Royal Bank of Canada to corporations, institutions or partnerships of which Sir H. S. Holt was a director or officer. (Printed as Appendix AM.)

MINUTES OF PROCEEDINGS

House of Commons,

Tuesday, March 6, 1934.

The Select Standing Committee on Banking and Commerce met this day at 11.00 a.m.

Mr. R. B. Hanson in the Chair.

Members present: Messieurs Arthurs, Baker, Beynon, Bothwell, Bowman, Casgrain, Coote, Donnelly, Dorion, Duff, Ernst, Euler, Fraser (*Northumberland, O.*), Gagnon, Hackett, Hanson (*York-Sunbury*), Harris, Howard, Hurtubise, Irvine, Jacobs, Lapointe, Laurin, Lawson, MacMillan (*Saskatoon*), McGibbon, McPhee, Mercier (*St. Henri*), Michaud, Morand, Perley (*Qu'Appelle*), Pettit, Power, Ralston, Raymond, Rhodes, Robinson, Sanderson, Smith, Smoke, Spencer, Stanley, Sullivan, Vallance, White (*Mount Royal*), Willis....45.

After considering a Private Bill on the Order Paper, the Committee then proceeded to the consideration of Bill No. 18, An Act respecting Banks and Banking.

On motion of Mr. Duff:

Resolved: That the following be adopted as the procedure of the Committee in connection with the Bill:—

1. Non-contentious sections to be disposed of first.
2. Any clause to which there is objection may stand on the request of a member of the Committee for future consideration.
3. Reconsideration shall be permissible on notice of motion.
4. Important amendments introduced in Committee may be received as Notices of Motion to be discussed and not voted upon until a subsequent meeting of the Committee. Members of Committee to be furnished with copies of such amendments.

Mr. Power, seconded by Mr. Vallance, moved the following:—

That before proceeding to a clause by clause examination of Bill No. 18, An Act respecting Banks and Banking, this Committee inquire into,

1. The interlocking of directorates as between banks, trust companies, insurances companies and important industrial concerns, and the effect of such interlocking directorates on the general, financial and economic condition of the country.

2. The general policies adopted by the chartered banks to combat the effects of the depression, and to what extent the said banks are responsible for the drastic deflation from which the country suffered, and is still suffering.

3. The circumstances which brought about the enactment of P.C. 2693, October 27, 1931, permitting the chartered banks to show investment securities in their monthly and annual financial statements at a valuation other than the actual or market value thereof.

4. Relations of the chartered banks to the wheat pools, and the extent to which the guarantees by the Dominion Government to the banks, of the said pools' grain market account was utilized for the purpose of speculating in wheat on the Winnipeg or Chicago grain pits.

5. The relationship between the chartered banks or any of them and the Canadian Pacific Railway Company, and the circumstances which brought about the guarantee by the Dominion of Canada of a loan of sixty million dollars to the said Railway Company.

6. The relationship between the banks or any of them and the pulp and paper industry, and the extent to which uncontrolled extension of credit brought about over-capitalization and over-expansion, and the subsequent disorganization and near bankruptcy of an industry dealing in some of the most valuable of our natural resources.

And for the purposes of obtaining information on the matters and things hereinabove enumerated, witnesses shall be called, including Sir Herbert Holt, President of the Royal Bank of Canada, Sir Charles B. Gordon, President of the Bank of Montreal, and such other bank presidents and directors as the Committee may deem it advisable to summon.

And that counsel learned in the law shall be appointed to assist the Committee in its investigation.

It was decided to consider this a notice of motion postponed for consideration at a subsequent meeting of the Committee.

On motion of Mr. Bowman:

Ordered: That the Committee report to the House recommending that 1,500 copies in English and 500 copies in French of the minutes of the proceedings of the Committee and of the evidence, if any, to be taken before the Committee, together with such papers and documents as may be incorporated with such evidence be printed from day to day; and that Standing Order 64 be suspended in relation thereto.

That the Committee further recommend that it be granted leave to sit while the House is sitting.

The Chairman suggested that, to meet the convenience of members who are engaged on other Committees, this Committee should sit, subject to change, on Tuesdays and Thursdays.

On motion of Mr. Lawson:

Resolved: That this Committee sit, unless it otherwise directs, on Tuesdays and Thursdays.

Clause 2 of Bill 18 adopted, with the exceptions of paragraphs (*g*) and (*o*).

On motion of Mr. Hackett:

Resolved: That in paragraph (*m*) of clause 2 of Bill 18 the word "means," in the eighth line of the said paragraph, be struck out and the word "includes" be substituted therefor.

The following clauses of Bill 18 were adopted: 3, 6, 7, 8, 9, 10, 13, 15, 16, 17, 22, 23, 25, 27, 35, 37, 38, 39, 40, 41, 43, 45, 46, 47, 48, 49, 50, 51, 52, 63, 67, 68, 69, 72, 73, 74, 85, 96, 115, 126, 127, 128, 129, 130, 134, 135, 139, 140, 141, 142, 144, 145, 150, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 164, 165, 167, 168, 169, 170.

The remaining clauses of the Bill, and the schedules thereto attached, were postponed for further consideration.

It was *Ordered* that the Clerk of the Committee take up with the proper official of the House the matter of arranging the seating of Room 231, in order to suit, as far as possible, the convenience of the official committee reporters and the members of the Committee.

The Committee adjourned to meet on Thursday, March 8, at 11.00 a.m.

HOUSE OF COMMONS,
THURSDAY, March 8, 1934.

The Select Standing Committee on Banking and Commerce met this day at 11 a.m.

Mr. R. B. Hanson in the Chair.

Members present: Messieurs Arthurs, Baker, Beynon, Bothwell, Bowman, Casgrain, Chaplin, Coote, Donnelly, Dorion, Duff, Euler, Gagnon, Hackett, Hanson (*York-Sunbury*), Harris, Howard, Hurtubise, Irvine, Jacobs, Lapointe, Laurin, Lawson, Mackenzie (*Vancouver Centre*), MacMillan (*Saskatoon*), McGibbon, Mercier (*St. Henri*), Michaud, Morand, Perley (*Qu'Appelle*), Pettit, Power, Rhodes, Robinson, Sanderson, Smith (*Cumberland*), Smoke, Spencer, Stanley, Sullivan, Vallance, White (*Mount Royal*)—42.

The Chairman called attention to the disparity between the recommendation *re* printing as reported to the House and the resolution of the Committee, adopting the motion of Mr. Bowman. Mr. Bowman's motion was that 1,500 copies be printed in English. The report asked for leave to print 1,000 copies in English. The Chairman pointed out that an analysis of the requisitions for printing, covering twelve years, showed that 500 copies in English was the usual recommendation; but that in the case of the Banking Inquiry, 1923, and the Customs Inquiry, 1925, 1,000 copies in English had been found sufficient. It was decided, to print 1,000 copies in English, on the understanding that if this number should not meet the necessities of the Committee, a recommendation would be made to the House asking for leave to print 1,500 copies in English.

Communications were read:

From the Department of Finance, advising that ten sets of the evidence taken before the Royal (MacMillan) Commission on Banking and Currency, 1933, were forwarded for the use of the Committee. (These are in the custody of the Clerk and, if taken away by Members of Committee, are to be returned when the deliberations of the Committee are determined).

From the City Clerk of Calgary, Alberta, through Mr. Stanley, a Member of the Committee, a letter forwarding a resolution of the City Council asking that " necessary amendments to the Bank Act be introduced with a view to lowering the rates of interest payable on existing obligations " and a copy of a memorandum submitted, on Friday, August 18, 1933, to the Royal Commission on Banking and Currency by His Worship the Mayor and Council of the City of Calgary. (See Evidence, Royal Commission, p. 724-750).

Communications received by the Committee shall be filed for future consideration and such action as later may be decided upon.

The following were received as notices of motion:

Proposed by Mr. Irvine:—

That, for the purpose of obtaining information on such matters and things as may be referred to the Committee, Major Hugh Douglas, of London, England; Mr. Hugh Bevington, of Edmonton, Alberta; Mr. Wm. Aberhart, of Calgary, Alberta, and Mr. J. Maynard Keynes, of London, England, be summoned to give their opinions as to the sort of financial system required to meet the needs of modern economic life.

Proposed by Mr. Coote:—

Mr. Coote gives notice that when the motion proposed by Mr. Power on March 6 shall be considered by this Committee amendments to paragraph six of the said motion will be proposed by Mr. Coote in the following terms:—

"Insert after the word 'industry' in the second line thereof the words 'or other major industries' and after the word 'industry' in the fourth line of the said paragraph the words 'or industries' and after the word 'enumerated' in the seventh line of the same paragraph the words 'or other matters relating to the policy and/or the administration of the chartered banks' and after the word 'directors' in the ninth line of the said paragraph the words 'or other persons' and after the word 'law' in the concluding sentence of the said paragraph the words 'or such other persons as may be designated by the Committee'."

Amendments to Clauses of Bill 18

Proposed by Mr. Mackenzie (*Vancouver Centre*):—

5 (1) That section five, subsection one, of Bill 18, be amended by striking out the word "forty-four" in the fourth line thereof and substituting the word "thirty-nine" therefor.

5 (3) That section five, subsection three, of Bill 18, be amended by striking out the word "forty-four" in the third line thereof and substituting the word "thirty-nine" therefor.

Proposed by Mr. Spencer:—

12. That section twelve of Bill 18 be amended by adding thereto as subsection (2a) the following:—

"(2a) Shares shall be subscribed for and held only by or for the beneficial ownership of British subjects ordinarily resident in Canada."

Proposed by Mr. Coote:—

18 (1) (*c*) That section eighteen subsection one paragraph (*c*) of Bill 18 be amended by striking out the word "five" in the second line thereof and substituting the word "seven" therefor and by striking out the word "three" at the end of the paragraph and substituting therefor the words "a majority of the board."

Proposed by Mr. Irvine:—

20 (5) That there be inserted the following as subsection (5) of section twenty of Bill 18:—

"(5) No person shall be elected or continue as a director of more than one bank at any time, and he shall be disqualified to act as a director of the bank if he is at the same time a director of or partner in any firm, company or corporation which is indebted to, or which applies for any loan or advance from, or which has any financial relations with, the bank of which he is a director."

Proposed by Mr. Power:—

21. That section twenty-one of Bill 18 be amended by adding the following thereto as subsection (5):—

"(5) No person shall be appointed or elected, or shall continue to hold office as a Director who, (*a*) is not a British Subject ordinarily resident in Canada, or (*b*) is a Director of any Trust Company, Insurance Company, Investment or Loan Company, or of any financial institution doing public business."

Proposed by Mr. Irvine:—

29 (2) That section twenty-nine, subsection two, of Bill 18, be amended by adding thereto the words: " but in no case shall the salary or remuneration of the president, vice-president, general manager or any officer of a bank exceed the remuneration of the Prime Minister of Canada for the same year."

Proposed by Mr. Spencer:—

31 (6) That section thirty-one of Bill 18 be amended by striking out subsection six and substituting therefor the following:—

" (6) A shareholder shall not vote by proxy but shall give to the Minister, in writing by registered post, instructions as to the manner in which he desires to vote on any business of the meeting. In any such case the Minister shall inform the scrutineers appointed at the meeting of the instructions so received and the scrutineers shall record the vote of each such shareholder in accordance with the instructions so given."

Proposed by Mr. Irvine:—

32 (2) That section thirty-two, subsection two, of Bill 18, be amended by striking out the said subsection and substituting therefor the following:—

" (2) No such by-law shall come into operation or be of any force or effect, nor shall a certificate approving thereof be issued by the Treasury Board unless and until such increase of the capital stock of the bank has been authorized by Act of Parliament."

Proposed by Mr. Coote:—

57 (1) That section fifty-seven, subsection one, of Bill 18, be amended by inserting immediately after the word " dividends " in the third line thereof the words " not exceeding the rate of six per centum per annum."

Proposed by Mr. Spencer:—

75 (2) That section seventy-five, subsection two, of Bill 18, be amended by adding thereto as paragraph (*g*) the following:—

(*g*) Lend money or make advances in excess of ten per centum of its paid-up capital and reserve to any one person, firm or corporation without the consent of the Executive Committee of the Bank of Canada."

Proposed by Mr. Coote:—

75 (5) That section seventy-five of Bill 18 be amended by adding thereto as subsection five the following:—

" (5) The bank shall not either directly or indirectly engage in stock market transactions nor lend money or make advances from the funds of the bank to any director or officer of the bank, or to any other person, with or without security, which moneys are to the knowledge or information of any director or officer of the bank to be used in stock market transactions or speculations nor shall the bank sell or hold shares or indirectly assist any person, firm, corporation or company to maintain, raise or lower the market price of any stock or to control the market price thereof."

Proposed by Mr. Howard:—

77. Mr. Howard gives notice that at a subsequent date he will propose an amendment to section seventy-seven of Bill No. 18.

Proposed by Mr. Lawson:—

96. That section ninety-six of Bill 18 be reconsidered.

Proposed by Mr. Irvine:—

114 (7) That the following be inserted immediately after subsection seven of section one hundred and fourteen of Bill 18:—

"(7) (i) Within sixty days after the close of each calendar year, the bank shall pay over to the Minister seventy-five per centum, with accumulated interest, of the amount of all dividends which have remained unpaid for more than five years, and of the amount of all certified cheques, drafts or bills of exchange issued by the bank to any person and remaining unpaid for more than five years, and of all amounts or balances in respect of which no transactions have taken place or upon which no interest has been paid during the preceding five years, which amounts and balances are shown in the annual returns of unpaid dividends and balances required to be transmitted to the Minister by the bank under the provisions of the preceding subsections of this section.

(ii) Such moneys and all interest thereon shall, notwithstanding any statute of limitations or other Act relating to prescription, be held by the Minister subject to all rightful claims on behalf of any person other than the bank.

(iii) If a claim to any moneys so paid is thereafter established to the satisfaction of the Minister he may direct payment thereof to be made to the person entitled thereto together with interest on the principal sum thereof, at the rate of three per centum per annum for a period not exceeding six years from the date of payment thereof to the Minister as aforesaid; provided that no such interest shall be paid or payable on such principal sum unless interest thereon was payable by the bank paying the same to the Minister.

(iv) Upon payment to the Minister as herein provided, the bank and its assets shall be held to be discharged from further liability for the amounts so paid."

Proposed by Mr. Irvine:—

114 (8a) That section one hundred and fourteen of Bill 18 be amended by adding thereto as subsection (8a) the following:—

"(8a) The bank shall, within thirty days after the close of each calendar year, transmit or deliver to the Minister a return shewing the names and addresses of the directors of the bank and the banks, firms and companies of which they are directors or partners."

The Chairman intimated to the Committee that the motion proposed by Mr. Power, on March 6, has entailed considerable study in respect of the relation of the motion to parliamentary law and procedure.

On motion of Mr. Hackett:

Resolved: That consideration of the proposed motion of Mr. Power be postponed until the next meeting of the Committee.

The Committee resumed consideration of Bill No. 18, An Act respecting Banks and Banking.

Paragraphs (*g*) and (*o*) of clause 2 of the Bill reconsidered and adopted.

On motion of Mr. Gagnon:

Resolved: That paragraph (*m*) of clause 2 of Bill 18 be amended by inserting in the fourth line of the said paragraph, after the word "honey," the words "maple products."

On motion of Mr. Gagnon:

Clause 2 of Bill 18, as amended, adopted.

The following clauses of the Bill were adopted: 2, 4, 11, 26, 30, 34, 36, 42, 44, 54, 65, 66, 70, 71, 76, 80, 81, 82, 83, 84, 86, 87, 97, 98, 113, 116.

The remaining clauses of the Bill, and the schedules, were postponed for reconsideration.

The Committee adjourned to meet on Tuesday, March 13, at 11 a.m.

House of Commons,
Tuesday, March 13, 1934.

The Select Standing Committee on Banking and Commerce met this day at 11 a.m.

Mr. R. B. Hanson in the Chair.

Members present: Messieurs Arthurs, Beynon, Bothwell, Bowman, Casgrain, Chaplin, Coote, Donnelly, Dorion, Duff, Euler, Geary, Hackett, Hanson (*York-Sunbury*), Howard, Hurtubise, Irvine, Jacobs, Lapointe, Lawson, Mackenzie (*Vancouver Centre*), McGibbon, McPhee, Morand, Perley (*Qu'Appelle*), Pettit, Power, Ralston, Rhodes, Robinson, Smith (*Cumberland*), Spencer, Stanley, Sullivan, Vallance, White (*Mount Royal*), Willis—38.

The Chairman indicated to the Committee that he had received several communications with regard to alleged exorbitant charges by banks; that it was desired by auditors that they be allowed to make representations with respect to section 55 (17) of Bill No. 18; that a group of bank clerks in Western Ontario complain about the wages paid to bank clerks. Communications filed for consideration at a later date.

The following notices of motion were handed in:—

Proposed by Mr. Spencer:—

20 (4) That section twenty of Bill 18 be amended by inserting the following immediately after subsection (3) of the said Bill:—

"(4) No Minister of the Crown in the Dominion Government shall be elected or continue to be a director of a bank."

Proposed by Mr. Morand:—

29 (2) Mr. Morand gives notice that at a later date an amendment will be moved by him, or on his behalf, to subsection two of section twenty-nine of Bill 18 incorporating in the said subsection a fair wage clause.

Proposed by Mr. Rhodes:—

53 (4) That subsection (4) of section 53 of Bill 18 be struck out and the following substituted therefor:—

"(4) The Governor in Council shall have power from time to time to make such amendments and additions to the items required to be set forth in the said statement <u>as he may deem expedient.</u>

Note: The underlined words are substituted for the words "may be deemed necessary as a result of the Bank of Canada being authorized to commence business."

Proposed by Mr. Howard:—

76 (2) That section seventy-six of Bill 18 be amended by striking out subsection (2) of the said section and substituting therefor the following:—

"(2) The bank may, after the debt has accrued and become payable, sell such shares, but consent of the owner of the shares must be obtained before

selling. And in case the bank and its debtor cannot agree the whole matter shall be submitted to the Governor of the Bank of Canada for his decision, which decision shall be binding on both parties."

Proposed by Mr. Howard:—

76 (3) That section seventy-six of Bill 18 be amended by striking out from subsection (3) of the said section the words " upon the sale being made " and substituting therefor the words " upon the decision of the Governor of the Bank of Canada being received."

Proposed by Mr. Howard:—

77 (1) That subsection (1) of section seventy-seven of Bill 18 be amended by striking out all the words after the word " Act " in the tenth line down to and including the word " same " in the thirteenth line of the said subsection.

Proposed by Mr. Casgrain:—

88 (7) That subsection (7) of section eighty-eight of Bill 18 be amended by adding after the word " months " in the eleventh line thereof, the following words: " And any claim by an unpaid vendor, of or in respect to such products, wares, goods and merchandises to the amount remaining unpaid " and by adding after the word " remuneration " in the thirteenth line thereof, the words " and such claim of an unpaid vendor."

Proposed by Mr. McGibbon:—

88 (7) That subsection (7) of section eighty-eight of Bill 18 be amended by adding thereto the following as a proviso:

" Provided further that if a bank represents that a person, firm, company or corporation is solvent and entitled to credit for goods, wares and merchandise ordered, and such person, firm, company or corporation is, or within six months thereafter, becomes insolvent or files a petition in bankruptcy, and it is ascertained that the liabilities of such person, firm, company or corporation exceed the assets thereof by fifty per centum, the bank shall lose the right of a preferred creditor and one-half of any lien to which it may be entitled under the provisions of this Act."

Proposed by Mr. Casgrain:—

89 (2) That subsection (2) of section eighty-nine of Bill 18 be amended by striking out all the words commencing with the word " who " in the ninth line thereof, down to the end of this subsection and substituting therefor the words " of or in respect to such products, goods, wares and merchandises to the amount remaining unpaid."

Proposed by Mr. Beynon:—

91 (1) That subsection (1) of section ninety-one of Bill 18 be amended by striking out all the words after the word " and " where it occurs in the fifth line of the said subsection and substituting therefor the following:

" Should the bank stipulate for, charge, take, reserve, or exact, any rate of interest exceeding seven per centum per annum, or should the bank charge, take, reserve, or exact, by way of discount any higher rate than seven per centum per annum, upon any money loaned by the bank or upon any debt owing to the bank, then and in every such case, the bank shall be forever barred from recovering the amount so loaned or the debts so owing and in respect of which, such rate, more than seven per centum per annum, has been charged, taken, reserved, or exacted, whether by way of interest or discount. The bank shall likewise be forever barred from recovering from the borrower, or debtor, as the case may be, any interest when the rate charged exceeds seven per centum per annum, and

the debtor may recover from the bank by action in any court of competent jurisdiction any sum charged, taken, reserved, or exacted by way of discount when the rate thereof exceeds seven per centum per annum. Should anyone claiming through or under any bank, recover any sum, either as principal or interest, which by reason of the provisions of this subsection the bank itself could not have recovered, the bank shall forthwith indemnify and reimburse the debtor from whom such sum was recovered, the full amount so recovered from him, whether as principal, interest, or costs, charged, or expenses, and the debtor may recover the same from the bank by action in any court of competent jurisdiction together with the costs of such action."

Proposed by Mr. Lawson:—

96. That subsection one of section ninety-six be amended by striking out the words " trust, whether expressed, implied or constructive," where they occur in the second line of the said subsection and substituting therefor the words " implied or constructive trust."

That subsection two of section ninety-six be struck out.

That subsection three of section ninety-six be struck out.

Proposed by Mr. Rhodes:—

112 (1) That subsection (1) of section one hundred and twelve of Bill 18 be amended by deleting the said subsection and substituting therefor the following:—

" (1) The bank shall, within the first twenty-eight days of each month, transmit or deliver to the Minister a return in the form set forth in Schedule G to this Act: Provided, however, that the Governor in Council shall have power from time to time to make such amendments and additions to the said schedule <u>as he may deem expedient."</u>

NOTE: The underlined words are substituted for the words " may be deemed necessary as a result of the Bank of Canada being authorized to commence business."

Proposed by Mr. Irvine:—

Schedule G. That Schedule G, a return prescribed to be transmitted to the Minister by the bank under the provisions of section one hundred and twelve of Bill 18, be amended by adding to the said Schedule, the following item, under the heading " assets ",

" 29a. Aggregate amount of loans to companies or corporations of which one or more directors are on the Board."

Proposed by Mr. Spencer:—

Schedule G. That Schedule G, a return prescribed to be transmitted or delivered by the bank to the Minister, under the provisions of section one hundred and twelve of Bill 18, be amended by striking out item 25, under the heading of "assets" therein, relating to bank premises, and substituting the following therefor:

" 25. Bank premises, at actual, or original cost; encumbrances thereon, including amounts borrowed from controlled corporations; the total written off for depreciation; losses of the bank charged to this account (if any); and the particular reserves, funds or contingencies of the bank, to which these expenditures are charged in returns to the Minister."

The Minister of Finance (Hon. Mr. Rhodes) made the following statement: (For text of statement see verbatim report of discussion under to-day's date.)

Discussion followed.

On motion of Mr. Hackett:—

Resolved: That the subject matter of the motion proposed by Mr. Power on March 6 be discussed when the cognate sections of Bill 18, if any, shall be under consideration by this Committee and that a subcommittee, to be named by the Chairman, be appointed to determine what witnesses shall be heard, the order in which witnesses are to be called and the order in which the different paragraphs of Mr. Power's motion shall be discussed and that the said subcommittee report from time to time. Adopted on division.

On motion of Mr. Bowman:—

Resolved: That the following act as members of the subcommittee to consider the matters covered by the resolution moved by Mr. Hackett, and adopted: Messrs. Coote, Hackett, Hanson, Lawson and Power.

The Committee resumed consideration of Bill No. 18, An Act respecting banks and banking.

The following clauses were adopted: Clauses 125, 131, 132, 133, 143, 146, 147, 148, 149, 163.

The following clauses were postponed for further consideration: sections 136, 137, 138, 151, 166.

On motion of Mr. Coote:—

Ordered: That each of the chartered banks be asked to furnish the committee with a statement shewing the name, occupation and address of each director and a list of the companies of which such director is a partner or director.

The Committee adjourned to meet on Thursday, March 15, at 4 p.m.

House of Commons,

Thursday, March 15, 1934.

The Select Standing Committee on Banking and Commerce met this day at 4 p.m.

Mr. R. B. Hanson in the Chair.

Members present: Messieurs Arthurs, Baker, Beynon, Bothwell, Casgrain, Chaplin, Coote, Donnelly, Dorion, Duff, Euler, Gagnon, Geary, Hackett, Hanson (*York-Sunbury*), Harris, Hurtubise, Irvine, Jacobs, Lapointe, Laurin, Mackenzie (*Vancouver Centre*), MacMillan (*Saskatoon*), McGibbon, McPhee, Michaud, Morand, Perley (*Qu'Appelle*), Pettit, Power, Ralston, Raymond, Rhodes, Robinson, Sanderson, Smith (*Cumberland*), Smoke, Spencer, Stanley, Sullivan, Vallance, White (*Mount Royal*), Willis....45.

The Chairman made a statement pointing out that the Serjeant at Arms reports upon the unfeasibility of arranging the Committee Room in the way suggested by some members of the Committee.

Mr. Hanson, for the subcommittee appointed at the last meeting of the Committee, reported as follows:—

Thursday, March 15, 1934.

Your subcommittee, appointed for the purpose of determining what witnesses are to be called to appear before the Committee, the order in which such witnesses shall be summoned and the order in which the different subject-matters

of Mr. Power's motion shall be discussed, beg to report that, at a meeting held on Tuesday, March 13, it was decided to recommend to the Committee that the following paragraph of Mr. Power's motion, viz.,

5. The relationship between the chartered banks or any of them and the Canadian Pacific Railway Company, and the circumstances which brought about the guarantee by the Dominion of Canada of a loan of sixty million dollars to the said Railway Company.

be discussed at the meeting of this Committee called for Thursday, March 15.

Your subcommittee further recommends that the Right Honourable R. B. Bennett, K.C., M.P., Prime Minister of Canada; E. W. Beatty, Esq., K.C., President, Canadian Pacific Railway Company and Jackson Dodds, Esq., President, Canadian Bankers' Association and General Manager of the Bank of Montreal, be asked to appear before your Committee at the said meeting for hearing in connection with the matter set out above.

Your subcommittee decided, on division, to make no recommendation, as yet, with regard to the matter of the appointment of Counsel to assist the Committee in its investigation of the matters under review by your Committee.

R. B. HANSON,
Chairman.

Mr. Hackett moved: That the report of the subcommittee be adopted.

Discussion followed.

The question being put on Mr. Hackett's motion, it was declared resolved in the affirmative.

The names being called for, they were taken by the Clerk of the Committee as follows: Yeas: Messieurs Arthurs, Beynon, Chaplin, Dorion, Gagnon, Geary, Hackett, Harris, Laurin, MacMillan (*Saskatoon*), McGibbon, Morand, Perley (*Qu'Appelle*), Pettit, Rhodes, Robinson, Smith (*Cumberland*), Smoke, Stanley, Sullivan, White (*Mount Royal*), Willis—22.

Nays: Messieurs Bothwell, Casgrain, Coote, Donnelly, Euler, Hurtubise, Irvine, Jacobs, Lapointe, Mackenzie (*Vancouver Centre*), McPhee, Michaud, Power, Ralston, Raymond, Sanderson, Spencer, Vallance—18.

And the motion was again declared by the Chairman as resolved in the affirmative.

On motion of Mr. Power:—

Ordered: That the Committee recommend to the House that the Committee be empowered to appoint and employ counsel to assist the Committee in investigating the matters and things referred to the Committee by the House.

The Chairman intimated that it would not be convenient for some of the witnesses named in the report of the subcommittee to be present to-day.

Mr. Hackett moved: That at its next meeting, on Tuesday, March 20, the Committee discuss item No. 5 in Mr. Power's resolution of March 6, viz., "The relationship between the chartered banks or any of them and the Canadian Pacific Railway Company and the circumstances which brought about the guarantee by the Dominion of Canada of a loan of sixty million dollars to the said Railway Company"; and that the witnesses named in the report of the subcommittee, which was adopted at this meeting, be asked to appear at that next meeting of the Committee to be heard on that date.

The motion was declared carried, on division.

On motion of Mr. Power:—

Ordered: That copies of P.C. 2490, dated November 29, 1933, in *re* the matter of a loan of sixty million dollars to the Canadian Pacific Railway Company, tabled in the House this day, be made readily available for the use of the members of this Committee.

Resuming consideration of Bill No. 18, An Act respecting Banks and Banking, the following notices of motion were accepted:—

Proposed by Mr. Irvine:—

53 (3) (*k*) That section fifty-three of Bill 18 be amended by inserting after the word "value" in the second line of paragraph (*k*) of subsection (3) of the said section the words "together with a full list of such securities."

53 (3) (*l*) That section fifty-three of Bill 18 be amended by inserting after the word "value" in the second line of paragraph (*l*) of the said section the words "together with a full list of such securities."

Proposed by Mr. Coote:—

53 (3) (*z*) (i) That paragraph (*z*) of subsection (3) of section fifty-three of Bill 18 be amended by adding thereto the following sub-paragraphs:—

"(i) The amount of deposits and loans for each province and the average rate of interest charged in each province.

(ii) Classification of total loans for different industries or services in such form as may be approved by the Minister."

Proposed by Mr. Spencer:—

53 (8) (*a*) That subsection (8) of section fifty-three of Bill 18 be amended by inserting therein the following as subsection (8*a*):—

"(8*a*) Such profit and loss statement shall include and show on the one part the amount of

(*a*) Balance of Profit and Loss account carried forward from previous year.

(*b*) Rebate of Interest on unmatured bills as at close of previous year.

(*c*) Gross profits, including balances of all Interest, Commission, Exchange and other Revenue producing accounts.

(*d*) Premium on New Stock sold.

(*e*) Bad Debts recovered, previously written off, and the statement shall include and show on the other part

(*a*) Expenses of management and operation.

(*b*) Interest paid on Deposits.

(*c*) Interest reserved on unmatured bills.

(*d*) Amount written off Bank Premises.

(*e*) Amount transferred to Appropriation Account for losses.

(*f*) Amount transferred to Officers' Pension Fund.

(*g*) Sundry appropriations or disbursements not included under foregoing heads, and to be shown in detail.

(*h*) Dividends declared (specifying number and date).

(*i*) Amount transferred to Rest Account.

(*j*) Balance at credit of Profit and Loss Account.

Proposed by Mr. Coote:—

138. That Bill 18 be amended by deleting section one hundred and thirty-eight therefrom.

Further consideration of Bill 18 was postponed.

The Committee then proceeded to consider Bill No. 33, An Act to amend the Quebec Savings Banks Act.

By request of Mr. Hackett, consideration of this Bill was postponed.

Bill No. 19, An Act to incorporate the Bank of Canada was next considered.

On motion of Mr. Duff:—

Resolved: That in the consideration of Bill No. 19 the Committee follow the procedure as laid down in connection with Bill No. 18, on March 6. (For procedure, see motion proposed by Mr. Duff, Minutes of proceedings of March 6).

On motion of Mr. Gagnon:—

Resolved: That a subcommittee of five members, to be nominated by the Chairman, be named to consider the question of what witnesses, if any, shall be called in connection with the consideration of Bill No. 19, the order in which such witnesses are to be called and such other matters as the committee may be asked to consider and to report from time to time.

On motion of Mr. Morand:—

Resolved: That the following, nominated by the Chairman, do constitute the members of the subcommittee as set up by Mr. Gagnon's motion: Messrs. Coote, Hackett, Hanson, Lawson and Mackenzie (*Vancouver Centre*).

The following proposed amendments to Bill No. 19 were accepted as notices of motion:—

Proposed by Mr. Mackenzie (*Vancouver Centre*):—

That before proceeding with the discussion, clause by clause, of Bill No. 19, An Act to incorporate the Bank of Canada, the Select Standing Committee on Banking and Commerce is of the opinion that the proposed Bank of Canada should be owned and controlled by the Dominion of Canada and that the provisions of the said Bill should be altered accordingly.

Proposed by Mr. Coote:—

That, in the opinion of this Committee, the ownership of the shares of the proposed Bank of Canada should be vested in the Government of the Dominion of Canada.

Proposed by Mr. Power:—

14 (2) (3) That section fourteen of Bill 19 be amended by striking out subsections (2) and (3) of the said section.

Proposed by Mr. Irvine:—

16 (2) That subsection (2) of section sixteen of Bill 19 be amended by inserting the words " of which the majority shall always be held by and vested in the Minister on behalf of His Majesty and the balance of such certificates " after the words " share certificates " in the second line of the said subsection and by striking out the word " which " in the second line of the same subsection.

NOTE: The subsection will then read as follows:—

"(2) The capital shall be divided into shares of one hundred dollars each, represented by share certificates, of which the majority shall always be held by and vested in the Minister on behalf of His Majesty and the balance of such certificates shall be offered by the Minister at par for public subscription in Canada and shall be allotted by him to persons eligible to hold shares, in such manner as he may in his discretion determine."

Proposed by Mr. Mackenzie (*Vancouver Centre*):—

16 (4) That section sixteen of Bill 19 be amended by adding thereto as subsection (4) the following:

"(4) The Minister shall at any time have the right on behalf of the Dominion of Canada to purchase such shares in whole or in part at not more than par.

Proposed by Mr. Spencer:—

16 (7) (*a*) That section sixteen of Bill 19 be amended by inserting the following as subsection (7*a*):

"(7*a*) The Minister may at any time call in the shares of stocks held by the several shareholders on paying par therefor and three months interest."

Proposed by Mr. Lapointe:—

23 (4) That section twenty-three of Bill 19 be amended by striking out subsection (4) of the said section and substituting therefor the following:

"(4) The notes shall be printed in the English and French languages and their form and material shall be subject to approval by the Minister."

Proposed by Mr. Spencer:—

30. That section thirty of Bill 19 be amended by striking out all the words after the word " and " in the fifth line of the said section down to and including the word " half-yearly " in eighth line of the same section and substituting therefor the following words: " after deducting an amount equal to five per centum of the paid-up capital which may be utilized for the payment of cumulative dividends at the rate of five per centum payable half-yearly."

The following clauses of Bill No. 19 were adopted: Clauses 1, 15 and 19.

The remaining clauses of the Bill, and the schedules attached thereto, were postponed for further consideration.

The Committee adjourned to meet on Tuesday, March 20, at 11 a.m.

HOUSE OF COMMONS,

TUESDAY, March 20, 1934.

The Select Standing Committee on Banking and Commerce met this day at 11 a.m.

Mr. R. B. Hanson in the Chair.

Members present: Messieurs Arthurs, Baker, Beynon, Bothwell, Bowman, Casgrain, Chaplin, Coote, Donnelly, Dorion, Duff, Ernst, Euler, Fraser (*Cariboo*), Fraser (*Northumberland, O*), Gagnon, Geary, Hackett, Hanson (*York-Sunbury*), Harris, Howard, Hurtubise, Irvine, Jacobs, Lapointe, Laurin, Lawson, Mackenzie (*Vancouver Centre*), MacMillan (*Saskatoon*), McGibbon, McPhee, Mercier (*St. Henri*), Michaud, Morand, Pettit, Power, Ralston, Raymond, Rhodes, Robinson, Sanderson, Smith (*Cumberland*), Smoke, Spencer, Stanley, Vallance, White (*Mount Royal*), Willis—48.

The Chairman asked that any proposed amendments to either Bill 18 or Bill 19 be handed in to the Clerk.

The following proposed amendments were received as notices of motion:—

Proposed by Mr. Jacobs:—

That there be substituted for paragraph 6 of Mr. Power's motion of March 6, the following:—

"6. The degree to which uncontrolled extension of credit brought about over-capitalization and over-expansion in various Canadian industries, and the subsequent disorganization in such industries involving some of the most valuable of our natural resources."

Proposed by Mr. Raymond:—

That section six of Bill 19 be amended by striking out paragraph (*a*) of subsection (2) of the said section and substituting therefor the following:—

"(*a*) is not a Canadian citizen; or"

Proposed by Mr. Raymond:—

That section six of Bill 19 be amended by adding to paragraph (*d*) of subsection (2) of the said section, after the word "Canada" at the end of the paragraph, the following words: "or elsewhere."

Proposed by Mr. Raymond:—

That section ten of Bill 19 be amended by striking out paragraph (*a*) of subsection (3) of the said section and substituting therefor the following:—

"(*a*) is not a Canadian national; or"

Proposed by Mr. Bowman:—

That section sixteen of Bill 19 be amended in the following manner:—

(*a*) By striking out the words "one hundred dollars" where they occur in the second and third lines of subsection (2) of the said section and substituting therefor the words: "Fifty Dollars."

(*b*) By striking out the words "twenty-five dollars" where they occur in the first line of subsection (5) of the said section and substituting therefor the words: "twelve dollars and fifty cents."

Proposed by Mr. White (*Mount Royal*):—

That paragraph (*l*) of subsection (1) of section twenty of Bill 19 be amended by striking out the words "promissory notes" where they occur in line 45 of the said paragraph.

Proposed by Mr. Bowman:—

That section thirty of Bill 19 be amended by striking out the word "six" where it occurs in the fifth line of the said section and substituting therefor the word "five."

The Chairman filed a certified copy of Order in Council, P.C. 2490, dated November 29, 1933, *re* guarantee of loan of $60,000,000 to Canadian Pacific Railway Company. (Printed in record.) Exhibit 1.

He also filed: Sessional Papers 150 D and 150 E: Copies of correspondence between the Government of Canada, or any member thereof, and the Bank ot Montreal and the Canadian Pacific Railway Company with reference to the said loan. Exhibit 2.

Mr. Power moved that counsel be appointed forthwith to assist the Committee in the remainder of its inquiries.

Consideration of this motion postponed until item No. 6 of Mr. Power's motion of March 6, viz., *re* C.P.R. loan, shall have been disposed of. Agreed to, on division.

E. W. Beatty, Esq., K.C., President, Canadian Pacific Railway Company, was called, read a statement and was examined thereon.

The witness produced, referred to and filed with the Committee:—

Exhibit 3: Certified extract from minutes of meeting of Board of Directors of Canadian Pacific Railway Company, held on June 12, 1933, whereat authority was granted certain officers of the Company to borrow stated sums and to pledge certain securities. (Not printed.)

Exhibit 4: Copy of note, dated June 22, 1933, signed by the President and the Secretary of the Canadian Pacific Railway Company covering a loan of $13,093,000 from Bank of Montreal, that bank's share of first instalment of loan. (Not printed.)

Exhibit 5: Copy of note, dated December 1, 1933, signed by the President and the Secretary of the Canadian Pacific Railway Company covering loan of $9,351,000 from the Bank of Montreal, remainder of that bank's share of loan. (Not printed.)

Exhibit 6: Statement, dated September 25, 1933, signed by E. E. Lloyd, Esq., Treasurer, Canadian Pacific Railway Company. (Printed in record.)

Exhibit 7: Annual Report, 1931, of Canadian Pacific Railway Company. (Not printed.)

Exhibit 7a: Annual Report, 1932, of Canadian Pacific Railway Company. (Not printed.)

Exhibit 8: Letter, dated May 31, 1933, from the Right Honourable the Prime Minister of Canada to the President of the Bank of Montreal. (Printed in record.)

Exhibit 9: Statement shewing fluctuations of price of stock of Canadian Pacific Railway Company between the years 1924 and 1933, both inclusive. (Printed in record.)

On motion of Mr. Power:—

Ordered: That a certified extract from the minutes of a meeting of the Directors of the Canadian Pacific Railway Company held on May 3, 1933, be filed with the Clerk of the Committee.

On motion of Mr. Ralston:—

Ordered: That there be prepared for the use of the Committee a statement showing, as of May 3, 1933, the amount of C.P.R. consolidated debenture stock outstanding differentiating the amount held by the public as collateral and the amounts held by banks, as collateral for bank loans; showing, also, the amount of said debenture stock necessary to cover loans subsequently absorbed by loans covered by Government guarantee.

On motion of Mr. Willis:—

Ordered: That a statement be filed showing the number of employees (outside) on payrolls of Canadian Pacific Railway Company during the calendar year 1933, and the amount of payments thereunder.

On motion of Mr. Howard:—

Ordered: That a statement showing the fluctuations in value of C.P.R. stock between the years 1924 and 1933, both inclusive, be prepared.

The Committee took recess until 4 p.m.

Afternoon Session

Examination of Mr. Beatty was resumed at 4 p.m.

On motion of Mr. Coote:—

Ordered: That there be prepared for the use of the Committee a statement showing the amount of dividends, and the rate thereof, paid by the Canadian Pacific Railway Company on its stock, both common and preferred, since 1920.

On motion of Mr. Mackenzie (*Vancouver Centre*):—

Ordered: That there be prepared and filed with the Committee a certified extract from the minutes of a meeting of the Board of Directors of the Canadian Pacific Railway Company at which the president of that company was authorized to enter into negotiations with a view to the securing of a guarantee by the Government of the $60,000,000 loan.

The witness was discharged.

Jackson Dodds, Esq., General Manager, Bank of Montreal, was called, read a statement, and was questioned thereon.

The witness filed:—

Exhibit 10: Statement of obligations of Canadian Pacific Railway Company to and balances with the Bank of Montreal from March, 1931, to date. (Printed as Appendix "A".)

Exhibit 11: Schedule giving particulars of allotments of $60,000,000 loan as between certain Canadian chartered banks. (Printed as Appendix "B".)

The witness referred to:—

Exhibit 12: Letter, dated August 17, 1933, signed by W. A. Bog, of the Bank of Montreal, addressed to the Right Honourable the Acting Prime Minister. (Printed as Appendix "C".)

Exhibit 13: Letter, dated August 31, 1933, from the Right Honourable the Acting Prime Minister to W. A. Bog, Esq., of the Bank of Montreal. (Printed as Appendix "D".)

The witness retired.

The Committee took recess until 8 p.m.

Evening Session

The Committee resumed at 8 p.m.

The Right Honourable R. B. Bennett, K.C., M.P., Prime Minister of Canada, was called, made a statement and was questioned thereon.

The Prime Minister referred to:—

Exhibit 14: Letter dated November 28, 1933, from General Manager of Bank of Montreal to the Right Honourable the Prime Minister of Canada. (Printed as Appendix "E".)

Exhibit 15: Statement showing payments made by Canadian Pacific Railway Company in discharge of maturing obligations from May 31 to November 1, 1933. (Printed as Appendix "F".)

Exhibit 16: Letter, dated November 5, 1933, from General Manager, Bank of Montreal, to the Right Honourable the Prime Minister of Canada. (Printed as Appendix "G".)

The Prime Minister then withdrew.

The Chairman announced that at the next meeting of the Committee Mr. John I. McFarland, Manager, Canadian Co-operative Wheat Pools, would be available for hearing in connection with item No. 4 of Mr. Power's motion of March 6, viz:—

> "4. Relation of the chartered banks to the wheat pools, and the extent to which the guarantees by the Dominion Government, to the banks, of the said pools' grain market account were utilized for the purpose of speculating in wheat on the Winnipeg and Chicago grain pits."

Mr. Power thereupon moved:—

That counsel be appointed to assist the Committee and that said counsel enter upon his duties on Thursday, March 22, 1934.

Discussion followed.

On the question being put, the Chairman declared the motion lost.

The names being called for, they were taken down as follows:—

Yeas: Messieurs Casgrain, Donnelly, Duff, Howard, Irvine, Jacobs, Lapointe, Mackenzie (*Vancouver Centre*), McPhee, Mercier (*St. Henri*), Power, Ralston, Raymond, Sanderson, Spencer, Vallance—16.

Nays: Messieurs Arthurs, Baker, Bowman, Chaplin, Fraser (*Cariboo*), Geary, Hackett, Hanson, Harris, Laurin, Lawson, MacMillan (*Saskatoon*), Pettit, Rhodes, Robinson, Smith (*Cumberland*), Smoke, Stanley, White (*Mount Royal*), Willis—20.

The motion was again declared by the Chairman as passed in the negative.

Mr. Power then gave notice that at the next, and subsequent meetings, he would move for reconsideration.

The Committee adjourned until Thursday, March 22, at 11 a.m.

HOUSE OF COMMONS,

THURSDAY, March 22, 1934.

The Select Standing Committee on Banking and Commerce met this day at 11.00 a.m.

Mr. R. B. Hanson in the Chair.

Members present: Messieurs Arthurs, Baker, Beynon, Bothwell, Bowman, Chaplin, Coote, Donnelly, Dorion, Duff, Ernst, Fraser (*Cariboo*), Gagnon, Geary, Hackett, Hanson (*York-Sunbury*), Howard, Hurtubise, Irvine, Jacobs, Lapointe, Laurin, Lawson, Mackenzie (*Vancouver Centre*), MacMillan (*Saskatoon*), McGibbon, McPhee, Mercier (*St. Henri*), Michaud, Morand, Perley (*Qu'Appelle*), Pettit, Power, Ralston, Raymond, Rhodes, Robinson, Smith (*Cumberland*), Smoke, Spencer, Stanley, Sullivan, Vallance, Willis.—44.

The Secretary of the Canadian Bankers' Association handed to the Chairman who filed, with the Clerk;

Exhibit 16a: Return to an Order of the Committee, dated March 8, showing: names of directors of Canadian chartered banks, the address and occupation of each director and the names of other banks, firms, companies, or corporations of which the bank director is a director or member. (Printed as Appendix "H".)

Exhibit 17: Return to an Order of the Committee, dated March 6, showing a list of bank directors on other boards, when two or more belong to the same bank and the total number of directors on the board of each company concerned. (Printed as Appendix "I".)

On motion of Mr. Power:

Ordered: That these Exhibits be printed as appendices to the minutes of proceedings and evidence.

The following proposed amendments to Bill 18, An Act respecting Banks and Banking were accepted as notices of motion:

Proposed by Mr. Perley:

88 (8) That subsection (8) of section eighty-eight of Bill 18 be amended by adding thereto the following words:

> And for the purchase of binder twine upon the security of any of the crop with respect to which such binder twine is to be used.

The following proposed amendments to Bill No. 19, An Act to incorporate the Bank of Canada, were received as notices of motion:

Proposed by Mr. Coote:

25 (1) That subsection (1) of section twenty-five of Bill 19 be amended by striking out the words "and deposit liabilities", after the word "notes", where they occur in the third line of the said subsection.

25 (3) That subsection (2) of section twenty-five of Bill 19 be amended by striking out the said subsection and substituting therefor the following:

> (*a*) gold coin and bullion and foreign exchange in the unrestricted ownership of the Bank to the amount of twenty-five per centum of the note issue.

25 (3) That subsection (3) of section twenty-five of Bill 19 be amended by striking out the words "and liabilities" in the fourth line of the said subsection.

Proposed by Mr. Duff:

That clause 28 of Bill 19 be amended by striking out all the words after the word "basis" in the fifth line of the said clause and substituting therefor the following: "of the current market value at the date of the relevant transactions."

On the Orders of the Day being called, the Chairman pointed out that it would not be possible for Mr. John I. McFarland to appear until the afternoon session of the Committee, accordingly it was agreed to postpone consideration of paragraph 4 of Mr. Power's motion of March 6, viz., "Relations of the chartered banks to the wheat pools, and the extent to which the guarantees by the Dominion Government to the banks, of the said pools' grain market account were utilized for the purpose of speculating in wheat on the Winnipeg or Chicago grain pits" until this afternoon.

Consideration resumed of Bill No. 18, An Act respecting Banks and Banking.

Amendment to subsection (1) of section five of the said Bill, proposed by Mr. Mackenzie *(Vancouver Centre)*, on March 8, was negatived on division.

Amendment to subsection (3) of section five of the said Bill, proposed by Mr. Mackenzie, on March 8, was withdrawn.

Section 5 (1) adopted, on division.

Section 5 (2) adopted, on division.

Section 5 (3) adopted, on division.

Section 12 (1) adopted.

Section 12 (2) adopted.

Amendment to section twelve (2a) proposed by Mr. Spencer, on March 8, negatived.

Section 12 (3) adopted.

Section 12 (4) adopted.

Section 12 (5) adopted.

Section 12 (6) adopted.

Section 18 postponed for reconsideration.

Section 19 adopted.

Section 20 (1) adopted.

Section 20 (2) adopted.

Section 20 (3) adopted.

Amendment to section 20 (4) proposed by Mr. Spencer, on March 8, considered. Mr. Gagnon moved, in amendment thereto, to strike out the words "in the Dominion Government" where they occur in the amendment proposed by Mr. Spencer.

Further consideration of Bill No. 18 postponed.

The Committee took recess until 4.00 p.m.

AFTERNOON SESSION

The Committee resumed at 4.00 p.m.

The Chairman filed:

Exhibit 18: Certified copy of P.C. 2238, dated September 12, 1931, (printed as Appendix "J").

Exhibit 19: Certified copy of P.C. 2239, dated September 12, 1931. (Printed as Appendix "K").

Exhibit 20: Certified copy of P.C. 2403, dated September 28, 1931. (Printed as Appendix "L").

Exhibit 21: Certified copy of P.C. 2977, dated November 30, 1931. (Printed as Appendix "M").

Exhibit 22: Certified copy of P.C. 1576, dated July 11, 1932. (Printed as Appendix "N").

Exhibit 23: Certified copy of P.C. 2077, dated September 20, 1932. (Printed as Appendix "O").

Exhibt 24: Certified copy of P.C. 508, dated March 20, 1933. (Printed as Appendix "P").

Exhibit 25: Certified copy of P.C. 685, dated April 12, 1933. (Printed as Appendix "Q").

Exhibit 26: Certified copy of P.C. 746, dated April 20, 1933. (Printed as Appendix "R").

(See statement of B. J. Roberts, Esq., as to effect of these Orders in Council).

The Minister of Finance made a statement with reference to procedure to be followed in connection wih the submission of Mr. John I. McFarland.

It was agreed that Mr. McFarland should make a statement and be questioned thereon and that the Committee should decide, by a majority vote, whether the witness should answer any question to which it was indicated an answer might, in the public interest, be injudicious.

Mr. John I. McFarland, General Sales Manager, Canadian Co-operative Wheat Producers, Limited, was called, made a statement and was questioned thereon.

Mr. B. J. Roberts, Comptroller, Government Guarantee Branch, Department of Finance, Ottawa, was called, read a statement.

Mr. Roberts retired.

The Committee decided to resume examination of Mr. McFarland at the evening session.

The Committee took recess until 8 p.m.

EVENING SESSION

Examination of Mr. McFarland resumed at 8 p.m.

Mr. Power moved: That the witness disclose the quantity of wheat he took over, in 1930, as general sales manager of "Wheat Producers"; the amount of the present holdings; what percentage of said holding is made up of physical wheat and what percentage of said holding is other than physical.

On a recorded vote, the motion was declared lost.

The names were taken down as follows:—Yeas: Messieurs Donnelly, Duff, Howard, Hurtubise, Lapointe, Mackenzie *(Vancouver Centre)*, Power, Ralston, Raymond.—9.

Nays: Messieurs Arthurs, Baker, Bothwell, Casgrain, Chaplin, Coote, Dorion, Ernst, Fraser *(Cariboo)*, Gagnon, Geary, Hackett, Harris, Irvine, Jacobs, Laurin, Lawson, MacMillan *(Saskatoon)*, McGibbon, McPhee, Michaud, Morand, Perley *(Qu'Appelle)*, Pettit, Rhodes, Robinson, Smith *(Cumberland)*, Spencer, Stanley, Sullivan, Vallance, Willis.—33.

Mr. Power moved: That the witness disclose to what extent, in money, the Government is at present involved, or to what extent it had been involved, for every six months period since the wheat market account of "Wheat Producers" was guaranteed by the Government.

On a recorded vote this motion was declared passed in the negative.

The names being called for they were taken down as follows:—Yeas: Messieurs Casgrain, Donnelly, Duff, Hurtubise, Mackenzie *(Vancouver Centre)*, Michaud, Power, Ralston, Raymond, Lapointe.—10.

Nays: Messieurs Arthurs, Beynon, Bothwell, Bowman, Chaplin, Coote, Dorion, Ernst, Fraser *(Cariboo)*, Gagnon, Geary, Hackett, Irvine, Lawson, MacMillan *(Saskatoon)*, McGibbon, McPhee, Perley *(Qu'Appelle)*, Pettit, Robinson, Smith *(Cumberland)*, Smoke, Spencer, Stanley, Sullivan, Vallance.—26.

Mr. Howard announced that he was paired with Mr. Baker, and that had he voted he would have voted in favour of Mr. Power's motion.

The witness was discharged.

Mr. S. H. Logan, General Manager, Canadian Bank of Commerce, Toronto, Canada, was called, read a statement and was questioned thereon.

The following was handed in by Mr. Ralston as a notice of motion for the production of papers:—

That this Committee be furnished with copies of all correspondence, telegrams, memoranda, et cetera, interchanged between any member of the Government and any chartered bank, which set out the limits, if any, imposed, and when, by the Government, on the amount of cash advances to "Wheat Producers" by the chartered banks concerned under the provisions of the orders in council which guaranteed such advances; and the form in which such limits were imposed.

This notice of motion to be considered at the next meeting of the Committee.

Examination of Mr. Logan to be resumed at the next meeting.

The Committee adjourned until Tuesday, March 27, at 11 a.m.

HOUSE OF COMMONS,

TUESDAY, March 27, 1934.

The Select Standing Committee on Banking and Commerce met this day at 11 a.m.

Mr. R. B. Hanson in the Chair.

Members present: Messieurs Arthurs, Baker, Beynon, Bothwell, Bowman, Chaplin, Coote, Dorion, Duff, Ernst, Euler, Fraser *(Cariboo)*, Fraser *(Northumberland)*, Gagnon, Geary, Hackett, Hanson *(York-Sunbury)*, Harris, Howard, Hurtubise, Irvine, Jacobs, Lapointe, Laurin, MacMillan *(Saskatoon)*, McPhee, Michaud, Morand, Perley *(Qu'Appelle)*, Pettit, Ralston, Raymond, Rhodes, Robinson, Smith *(Cumberland)*, Sanderson, Smoke, Spencer, Stanley, Sullivan, Vallance, White *(Mount Royal)*, Willis—45.

The Chairman filed the following: Returns to Orders of the Committee, dated March 22:—

Exhibit 27. Statement shewing monthly expenditures on payroll account of Canadian Pacific Railway Company for year 1933, and total for same year of amount spent on payroll account for Steamships. (Printed as Appendix " S ".)

Exhibit 28. Statement shewing maximum, minimum and average number of employees of Canadian Pacific Railway Company for years 1929 and 1933. (Printed as Appendix " T ".)

Exhibit 29. Report of Proceedings, Annual Meeting, May 3, 1933, of Shareholders of Canadian Pacific Railway Company. (Not printed.)

Exhibit 30. Certified extract from Minutes of a meeting of Board of Directors of Canadian Pacific Railway Company, on April 10, 1933. (Printed in record.)

Exhibit 31. Record of dividends, from years 1920 to 1932, both inclusive, paid by Canadian Pacific Railway Company, on both Common and Preferred Stock, and the rate thereof. (Printed as Appendix " U ".)

On motion of Mr. Irvine:—

Ordered: That these returns which were not read into the record be printed as appendices to Minutes of Evidence.

The Chairman read into the record a letter from the Secretary, The Montreal Board of Trade, commenting on certain proposed amendments to Bill 18, An Act respecting Banks and Banking.

Notice of motion of Mr. Ralston, of March 22, for the production of certain papers, with reference to certain limits of advances by chartered banks to " Wheat Producers " was considered and negatived, on division.

Examination of Mr. S. H. Logan, General Manager, Canadian Bank of Commerce resumed in connection with the relation of chartered banks to wheat pool financing, etc.

The witness was discharged.

It was decided that further consideration of the relation of the banks to wheat pools, etc., would be taken up on notice of motion for reconsideration.

Consideration was then taken up of Item No. 2 of Mr. Power's motion of March 6, viz: " The general policies adopted by the chartered banks to combat the effects of the depression and to what extent the said banks are responsible for the drastic deflation from which the country suffered and is still suffering."

Mr. Jackson Dodds, General Manager, Bank of Montreal, was recalled, made a statement and was questioned thereon.

On motion of Mr. Irvine:—

Ordered: That there be prepared a statement shewing (*a*) deposits by the public, payable on demand in Canada; (*b*) deposits of the public, payable after notice, or on a fixed day, in Canada; (*c*) deposits elsewhere than in Canada; (*d*) bank notes in circulation; (*e*) current gold and other coin in circulation; (*f*) dominion notes in circulation; (*g*) total bank loans, differentiating as under heads shewn in monthly return; all as of October, 1929, and October, 1932.

The Committee took recess until 4 p.m.

AFTERNOON SESSION

Examination resumed of Mr. Dodds.

The witness filed with the Committee:—

Exhibit 32. Statement shewing total assets, abroad, and total liabilities, abroad, of Bank of Montreal, six months periods, December, 1925, to December, 1927, and three months periods, December, 1927, to November, 1929. (Printed as Appendix " V ".)

It was decided to resume examination of witness at next meeting of Committee.

The Committee adjourned until Tuesday, April 10, at 11 a.m.

HOUSE OF COMMONS,

TUESDAY, April 10, 1934.

The Select Standing Committee on Banking and Commerce met this day at 11 a.m.

Mr. R. B. Hanson in the Chair.

Members present: Messieurs Arthurs, Baker, Beynon, Bothwell, Bowman, Coote, Dorion, Duff, Ernst, Fraser (*Cariboo*), Fraser (*Northumberland, O.*), Gagnon, Hackett, Hanson (*York-Sunbury*), Harris, Hurtubise, Irvine, Lawson, Mackenzie (*Vancouver Centre*), MacMillan (*Saskatoon*), McGibbon, McPhee, Mercier (*St. Henri*), Perley (*Qu'Appelle*), Pettit, Power, Rhodes, Robinson, Sanderson, Smith (*Cumberland*), Smoke, Spencer, Stanley, Sullivan, Vallance, White (*Mount Royal*)—34.

The Chairman filed,—

Exhibit 33.—Certified copy of Order in Council, P.C. 2693, dated October 27, 1931. (Printed as Appendix "W".)

The Committee resumed consideration of the following paragraph of Mr. Power's motion, viz:—

> The general policies adopted by the chartered banks to combat the effects of the depression, and to what extent the said banks are responsible for the drastic deflation from which the country suffered, and is still suffering.

Examination resumed of Mr. Jackson Dodds, General Manager, Bank of Montreal.

The Committee took recess until 4 p.m.

AFTERNOON SESSION

The Committee resumed at 4 p.m.

Examination continued of Mr. Jackson Dodds.

On motion of Mr. Bowman,—

Ordered: That the Committee be furnished with a statement showing the difference, if any, between the rates of interest charged by the Bank of Montreal on loans to municipalities in Eastern Canada and to municipalities in Western Canada, in the years 1930 to 1933, inclusive.

Witness discharged.

Mr. H. F. Patterson, General Manager, The Bank of Nova Scotia, Toronto, Ontario, was called, read a statement and was examined thereon.

The Committee took recess until 8 p.m.

EVENING SESSION

The Committee resumed at 8 p.m.

Examination continued of Mr. Patterson.

Witness discharged.

Mr. S. H. Logan, General Manager, Canadian Bank of Commerce, was recalled, read a statement and was examined thereon.

On motion of Mr. Power,—

Ordered: That the Committee be furnished with copies of circulars, and excerpts from letters, issued by head office of The Canadian Bank of Commerce and addressed to its branch managers in the years 1927, 1928, and 1929, with reference to loans.

Witness filed,—

Exhibit 34.—Classification of borrowers at Branches of Canadian Bank of Commerce in Canada, Newfoundland, St. Pierre, and Miquelon, as of November 30, 1929, and February 28, 1934. (Printed as Appendix "X".)

The Chairman ruled out of order, on the ground that the Committee had already decided, by a majority vote, against the disclosure of such information, a question by Mr. Duff, with reference to the amount of the guarantees, by the Government, of wheat pool financing.

Mr. Duff appealed from the ruling of the Chair.

The Chairman's ruling was upheld, on division.

Witness discharged.

It was agreed to continue consideration of paragraph 2 of Mr. Power's motion at the next meeting of the Committee.

The Committee adjourned to meet on Thursday, April 12, 1934, at 11 a.m.

HOUSE OF COMMONS,
THURSDAY, April 12, 1934.

The Select Standing Committee on Banking and Commerce met this day at 11 a.m.

Mr. R. B. Hanson in the Chair.

Members present: Messieurs Arthurs, Baker, Beynon, Bothwell, Bowman, Casgrain, Chaplin, Coote, Donnelly, Duff, Ernst, Euler, Fraser *(Cariboo)*, Fraser *(Northumberland, O.)*, Gagnon, Hanson *(York-Sunbury)*, Howard, Hurtubise, Irvine, Laurin, Lawson, Mackenzie *(Vancouver Centre)*, MacMillan, *(Saskatoon)*, McGibbon, McPhee, Michaud, Perley *(Qu'Appelle)*, Pettit, Power, Raymond, Rhodes, Robinson, Sanderson, Smith *(Cumberland)*, Smoke, Stanley, Vallance, White *(Mount Royal)*, Willis—40.

The Chairman made a statement with reference to the translation of the minutes of proceedings and evidence.

Mr. M. W. Wilson, General Manager, The Royal Bank of Canada, was called, read a statement and was questioned thereon.

It was agreed to continue examination of witness at afternoon session of Committee.

The Chairman informed the Committee that Major C. H. Douglas will be heard at the meeting of the Committee to be called for Tuesday, April 17, next, at 11 a.m.

Mr. Power asked that in connection with the consideration of paragraph 6 of the motion proposed by him on March 6, viz:—

> 6. The relationship between the banks or any of them and the pulp and paper industry, and the extent to which uncontrolled extension of credit brought about over-capitalization and over-expansion, and the subsequent disorganization and near bankruptcy of an industry dealing in some of the most valuable of our natural resources,

Summons to appear before the Committee as witnesses should issue to: Mr. J. H. Gundy, and associates of his to be named later; Sir Herbert Holt, K.B., Mr. E. W. Beatty, K.C., and other members of the so-called Bankers' Committee; the members of the firm of Price Brothers; and the Right Honourable Lord Beaverbrook, London, England.

It was agreed that the matter of requesting the attendance of these proposed witnesses, or any other witnesses who may be required with reference to those portions of Mr. Power's motion which, as yet, have not been considered, should be referred to the sub-committee which was constituted on March 13, to wit: Messieurs Coote, Hackett, Hanson, Lawson and Power, for consideration and report.

The Committee took recess until 4 p.m.

AFTERNOON SESSION

The Committee resumed at 4 p.m.

Examination continued of Mr. Wilson.

Witness discharged.

The Chairman suggested that the Committee consider paragraph 1 of Mr. Power's motion, viz:—

> 1. The interlocking of directorates as between banks, trust companies, insurance companies and important industrial concerns, and the effect of such interlocking directorates on the general, financial and economic condition of the country.

It was agreed, in the above connection, that Mr. Jackson Dodds, General Manager, The Bank of Montreal, should file a brief and that said brief be printed in the Minutes of Evidence of the day.

The Committee adjourned to meet on Tuesday, April 17, next, at 11 a.m.

House of Commons,

Tuesday, April 17, 1934.

The Select Standing Committee on Banking and Commerce met this day at 11 a.m.

Mr. R. B. Hanson in the Chair.

Members present: Messieurs Arthurs, Beynon, Bothwell, Bowman, Casgrain, Chaplin, Coote, Donnelly, Duff, Ernst, Euler, Fraser (*Cariboo*), Fraser (*Northumberland, O.*), Gagnon, Geary, Hackett, Hanson (*York-Sunbury*), Hurtubise, Irvine, Jacobs, Lapointe, Laurin, Mackenzie (*Vancouver Centre*), MacMillan (*Saskatoon*), McGibbon, McPhee, Mercier (*St. Henri*), Michaud, Morand, Perley (*Qu'Appelle*), Ralston, Rhodes, Robinson, Sanderson, Smith (*Cumberland*), Smoke, Spencer, Stanley, Sullivan, White (*Mount Royal*), Willis—41.

Mr. Jackson Dodds, General Manager, the Bank of Montreal, handed to the Chairman, who filed:—

Exhibit 35: Return to an Order of the Committee, dated April 10th, last, viz., statement showing the difference, if any between the rates of interest charged by the Bank of Montreal on loans to municipalities in Eastern Canada and to municipalities in Western Canada, in the years 1930 to 1933, inclusive. (Printed as Appendix "Y");

Also, on behalf of Mr. S. H. Logan, General Manager, the Canadian Bank of Commerce,—

Exhibit 36: Return to an Order of the Committee, dated April 10th, last, extracts from circulars sent by Head Office, the Canadian Bank of Commerce to Branches *re* stock loans and extracts from circulars from Head Office of said bank to branches *re* commercial loans, in the years 1927, 1928, and 1929.

On motion of Mr. Hackett, of the subcommittee,—

Resolved, That the Committee do now hear Major C. H. Douglas, of London, England.

The Chairman introduced Major C. H. Douglas, R.A.F. (Res.), M.I. Mech. E., M.I.E.E., to the Committee.

Major Douglas took the stand, made a statement and was questioned thereon.

It was agreed to continue the examination at afternoon sitting of the Committee.

The Committee took recess until 4 p.m.

AFTERNOON SESSION

The Committee resumed at 4 p.m.

Examination resumed of Major Douglas.

The examination of Major Douglas had not been concluded when the Committee rose at 6 p.m.

The Committee adjourned to meet at 11 a.m., on Thursday, April 19th, next.

House of Commons,
Thursday, April 19, 1934.

The Select Standing Committee on Banking and Commerce met this day at 11 a.m.

Mr. R. B. Hanson in the Chair.

Members present: Messieurs Arthurs, Baker, Beynon, Bothwell, Bowman, Chaplin, Coote, Donnelly, Dorion, Duff, Euler, Fraser (*Cariboo*), Gagnon, Geary, Hackett, Hanson (*York-Sunbury*), Hurtubise, Irvine, Jacobs, Lapointe, Mackenzie (*Vancouver Centre*), MacMillan (*Saskatoon*), McPhee, Michaud, Morand, Perley (*Qu'Appelle*), Power, Ralston, Raymond, Rhodes, Robinson, Smith (*Cumberland*), Smoke, Spencer, Stanley, Sullivan, Vallance, White (*Mount Royal*).—36.

Examination continued of Major C. H. Douglas.

On behalf of the Committee, the Chairman thanked Major Douglas who then withdrew.

It was agreed that, at the afternoon session, consideration would be resumed of paragraph 1 of the motion proposed by Mr. Power on March 6, last.

The Committee took recess until 4 p.m.

Afternoon Session

The Committee resumed at 4 p.m.

Consideration resumed of paragraph 1 of Mr. Power's motion, viz.:

> "The interlocking of directorates as between banks, trust companies, insurance companies and important industrial concerns, and the effect of such interlocking directorates on the general, financial and economic condition of the country."

Mr. Jackson Dodds, General Manager, The Bank of Montreal, was recalled and examined thereon.

Witness retired.

Sir Charles Blair Gordon, G.B.E., President, The Bank of Montreal, was called, and questioned.

The Committee took recess until 8 p.m.

Evening Session

The Committee resumed at 8 p.m.

Examination continued of Sir Charles B. Gordon, G.B.E.

Witness discharged.

Mr. M. W. Wilson, General Manager, The Royal Bank of Canada, was recalled and examined.

On motion of Mr. Coote:

Ordered: That the Committee be furnished with a statement showing the amounts which would be drawn from the bank's pension fund by bank employees on retirement after various periods of service.

On motion of Mr. Coote:

Ordered: That the Committee be supplied with a statement showing the total amount collected, as service charges, by the Royal Bank of Canada at the Branches of that Bank in the City of Vancouver, during the year 1933.

Witness retired.

The following was received as a notice of motion, proposed by Mr. Coote:

That this Committee do not hold any further evening sessions, unless for the consideration of special and urgent matters.

Mr. S. H. Logan, General Manager, The Canadian Bank of Commerce, was recalled and questioned.

Witness discharged.

The Chairman informed that Committee that the physician of Sir Herbert Holt, K.B., President, The Royal Bank of Canada, has certified that Sir Herbert should not be asked to attend before the Committee, but that if the Committee should so decide, a sub-committee might hear his evidence in Montreal.

Consideration of Bill 18, An Act respecting Banks and Banking will be resumed at the next meeting.

The Committee adjourned to meet on Tuesday, April 24, next, at 11 a.m.

House of Commons,

Tuesday, April 24, 1934.

The Select Standing Committee on Banking and Commerce met this day at 11.00 a.m.

Mr. R. B. Hanson in the Chair.

Members present: Messieurs Arthurs, Baker, Beynon, Bothwell, Casgrain, Chaplin, Coote, Donnelly, Dorion, Duff, Ernst, Euler, Fraser (*Cariboo*), Gagnon, Geary, Hackett, Hanson (*York-Sunbury*), Hurtubise, Irvine, Jacobs, Laurin, Lawson, Mackenzie (*Vancouver Centre*), MacMillan (*Saskatoon*), McGibbon, McPhee, Morand, Ralston, Rhodes, Robinson, Sanderson, Smith (*Cumberland*), Smoke, Spencer, Stanley, White (*Mount Royal*), Willis.—37.

The following proposed amendments, to Bills referred to the Committee, were accepted as notices of motion:

Proposed by Mr. Rhodes:

1. That section sixty-one of Bill 18 be amended by adding the following as subsection (4):

> (4) In the case of a bank authorized to commence business after the day on which this section comes into force, the said bank shall be subject to the provisions of this section as if it had been authorized to commence business on the day on which this section comes into operation.

2. That Bill No. 33, An Act to amend the Quebec Savings Banks Act be amended by inserting the following as section two of the said Bill:

> 2. Section five of the Quebec Savings Banks Act is amended by adding thereto the following as subsection (2):
>
> > (2) When by this Act a notice is required to be published in a newspaper for four weeks or any longer period, publication each week in a weekly newspaper, or once a week during the period in a paper published more frequently, shall be a sufficient publication for the purposes of this Act.

3. That Bill No. 33, An Act to amend the Quebec Savings Banks Act be amended by inserting the following as section three of the said Bill:

> 3. Section thirty-two of the Quebec Savings Banks Act is amended by striking out the proviso contained in the said section.

4. That Bill No. 33, An Act to amend the Quebec Savings Banks Act be amended by inserting the following as section four of the said Bill:

> 4. Section thirty-three of the Quebec Savings Banks Act is amended by adding thereto the following as subsection two:
>
> > (2) An attaching or garnishee order or summons shall only affect and bind moneys to the credit of the debtor at the Branch Agency or Office of the Bank where such order or summons or notice is served.

Proposed by Mr. Irvine:

That subsection (2) of section twenty-nine of Bill 18 be amended by adding thereto the following words:

> Such officers, clerks and servants may have the right to organize for the purpose of protecting their interests in regard to such matters as wages, salaries, hours of labour and general working conditions.

Proposed by Mr. Lawson:

That the notice of motion standing in my name, dated March 13, last, be withdrawn and the following substituted therefor:

That section ninety-six of Bill 18 be amended by striking out subsections (2) and (3) and substituting the following therefor: (italic portions are new):

> (2) *If any deposit made under the authority of this Act is subject to a trust of which* the bank has notice the receipt *or cheque* of the person in whose name any such deposit stands, or, if it stands in the names of two *or more than two* persons, the receipt *or cheque of all of such persons,* shall, notwithstanding any trust to which such deposit is then subject, be a sufficient discharge to all concerned for the payment of any money payable in respect of such deposit, and the bank shall not be bound to see to the application of any money paid upon such receipt *or cheque.*
>
> (3) Except only in the case of a lawful claim by some other person before repayment, the receipt *or cheque* of the person in whose name any deposit stands, or, if it stands in the names of two persons, the receipt *or cheque* of one, or if it stands in the names of more than two persons the receipt *or cheque* of a majority of such persons, shall be a sufficient discharge to all concerned for the payment of any money payable in respect of such deposit.

Consideration resumed of Bill 18, An Act respecting Banks and Banking.

It was agreed to hear representations from The Institutes of Chartered Accountants of Ontario and Quebec with respect to subsection (17) of section 55 of the Bill.

Mr. H. D. Lockhart Gordon, President, The Institute of Chartered Accountants of Ontario, Toronto, Ontario, was called, made a statement and was questioned thereon.

Witness filed with the Chairman, who read into the record, a suggested amendment to subsection (17) of section 55 of the Bill. (See Minutes of Evidence).

Witness discharged.

Mr. David Young, President, The Society of Chartered Accountants of the Province of Quebec, Montreal, Quebec, was called and was examined.

Witness discharged.

Mr. K. A. Mapp, Secretary, The Institute of Chartered Accountants of Ontario, Toronto, Ontario, was called and was examined.

Witness read into the record a resolution passed at a meeting of the Council of the Institute of which he is Secretary, held on Friday, September 22, 1933. (See Minutes of Evidence).

Witness discharged.

Mr. C. S. Tompkins, Inspector General of Banks, Department of Finance, Ottawa, was recalled, made a statement and was questioned thereon.

Witness retired.

Mr. Jackson Dodds, General Manager, The Bank of Montreal, Montreal, Quebec, was recalled, and made a statement.

Witness retired.

Mr. M. W. Wilson, General Manager, The Royal Bank of Canada, was recalled and made a statement.

Witness retired.

Mr. H. B. Henwood, General Manager, The Bank of Toronto, Toronto, Ontario, was called, made a statement and was questioned thereon.

Witness discharged.

The Chairman read into the record a letter, dated March 28, 1934, from Mr. George Edwards, of Edwards, Morgan & Company, Chartered Accountants, Toronto, Ontario, addressed to W. C. Clark, Esq., Deputy Minister of Finance, Ottawa. (See Minutes of Evidence).

Discussion followed.

Section 14 adopted.

Section 18 adopted, after Mr. Coote's amendment proposed on March 8, was lost.

Section 20 considered.

Amendment thereto, proposed by Mr. Spencer, on March 13, viz: That section twenty of Bill 18 be amended by inserting the following immediately after subsection (3) of the said section:—

> (4). No Minister of the Crown in the Dominion Government shall be elected or continue to be a director of a bank.

considered. Mr. Gagnon's amendment thereto, proposed on March 22, viz:—

> That the amendment to section twenty, proposed by Mr. Spencer, on March 13, be amended by striking out the words "in the Dominion Government" where they occur therein

reconsidered, and withdrawn.

Mr. Gagnon moved, seconded by Mr. Spencer,

> That section twenty of Bill 18 be amended by inserting the following as subsection (4) of the said section:
>
> > (4). No Minister of the Crown in the Dominion Government *or in any Provincial Government* shall be elected or continue to be a director of a bank.

On the question being put on this latter amendment, it was declared lost.

The names then being called for, they were taken down as follows: Yeas: Messieurs Coote, Gagnon and Morand.—3.

Nays: Messieurs Arthurs, Beynon, Bothwell, Casgrain, Chaplin, Duff, Euler, Fraser *(Cariboo)*, Geary, Hackett, Hurtubise, Lawson, Mackenzie *(Vancouver Centre)*, MacMillan *(Saskatoon)*, McGibbon, McPhee, Ralston, Robinson, Smith *(Cumberland)*, Smoke, White *(Mount Royal)*.—21.

The amendment of Mr. Gagnon was again declared passed in the negative.

Mr. Spencer's amendment was lost, on division.

Mr. Irvine's amendment proposed on March 8, last (see notices of motion of that date), lost, on division.

Section 20 adopted, on division.

Section 21 postponed for further consideration.

Sections 24 and 28 adopted.

Section 29 considered.

On motion of Mr. Morand:—

Ordered: That the chartered banks file with this Committee a return shewing (*a*) the classification of bank employees; (*b*) the salaries, maximum and minimum, of each classification; (*c*) the average age of employees in each classification; (*d*) the pensions and other remunerations of employees; (*e*) the restrictions upon marriage of employees; (*f*) the proportion of employees' contributions to pension fund returned when employees leave bank after notice of dismissal; (*g*) the age at which superannuation of bank employees becomes effective; (*h*) the proportion of employees' contribution to pension fund payable on superannuation.

Amendment, proposed by Mr. Irvine on March 8, viz: " That section twenty-nine, subsection (2) of Bill 18, be amended by adding thereto the following words: ' but in no case shall the salary or remuneration of the president, vice-president, general manager or any officer of a bank exceed the remuneration of the Prime Minister of Canada for the same year ' " considered. Lost, on division.

Further consideration of section 29 postponed.

The Committee took recess until 4 p.m.

AFTERNOON SESSION

The Committee resumed at 4 p.m.

Consideration resumed of Bill 18.

Section 31 considered.

Amendment proposed by Mr. Spencer, on March 8, viz: " That section thirty-one of Bill 18 be amended by striking out subsection (6) and substituting therefor the following: '(6) A shareholder shall not vote by proxy but shall give to the Minister, in writing by registered post, instructions as to the manner in which he desires to vote on any business of the meeting. In any such case the Minister shall inform the scrutineers appointed at the meeting of the instructions so received and the scrutineers shall record the vote of each such shareholder in accordance with the instructions so given '," considered, and declared lost, on division.

Section 31 adopted.

Section 32 considered.

Amendment proposed by Mr. Irvine, on March 8, viz: " That section thirty-two, subsection (2), of Bill 18, be amended by striking out the said subsection and substituting therefor the following: '(2) No such by-law shall come into operation or be of any force and effect, nor shall a certificate approving thereof be issued by the Treasury Board unless and until such increase of the capital stock of the bank has been authorized by Act of Parliament'," considered and declared lost on division.

The names being called for, they were then taken down as follows: Yeas: Messieurs Coote, Irvine, Spencer—3; Nays: Messieurs Beynon, Dorion, Ernst, Fraser (*Cariboo*), Geary, Hackett, MacMillan (*Saskatoon*), Ralston, Robinson, Smoke, Stanley, White (*Mount Royal*)—12.

The amendment was again declared passed in the negative.

Section 32 adopted, on division.

Section 33 considered.

Mr. C. S. Tompkins, Inspector General of Banks, Department of Finance, Ottawa, made a statement and filed:—

Exhibit 37: Particulars of increases in capital stock of Canadian chartered banks, from July 1, 1923, to December 31, 1933. (Printed as Appendix "AA".)

Section 33 adopted.

Section 53 considered.

Amendments proposed by Mr. Irvine, on March 15, viz: "That section fifty-three of Bill 18 be amended by inserting after the word 'value' in the second line of paragraph (*k*) of subsection (3) of the said section, the words: 'together with a full list of such securities': 'That section fifty-three of Bill 18 be amended by inserting after the word "value" in the second line of paragraph (l) of the said section the words 'together with a full list of such securities'," considered.

It was agreed that the valuation of securities by chartered banks, as provided for by P.C. 2693, October 27, 1931, could now be considered.

Mr. C. S. Tompkins made a statement and was questioned thereon. (See Minutes of Evidence.)

Amendments of Mr. Irvine declared lost, on division.

On motion of Mr. Ralston.

Resolved: That section fifty-three of Bill 18 be amended by inserting in subsection (3) of the said section, after the word "part" in the third line of said subsection, the words "the amount of the" and by inserting in subsection (3) of the said section, after the word "part" in the first line of the said subsection, the words "the amount of." Adopted.

Consideration of section 53 to be resumed.

Further consideration of Bill 18 postponed.

The Chairman informed the Committee that at the next meeting the order of business would be: (1) presentation of report of sub-committee; (2) consideration of Private Bills on the Committee's Order Paper; and (3) resuming consideration of Bill 18.

The Committee adjourned to meet on Thursday, April 26, at 11 a.m.

HOUSE OF COMMONS,

THURSDAY, April 26, 1934.

The Select Standing Committee on Banking and Commerce met this day at 11 a.m.

Mr. R. B. Hanson in the Chair.

Members present: Messieurs Arthurs, Baker, Beynon, Bothwell, Bowman, Chaplin, Coote, Donnelly, Dorion, Duff, Ernst, Euler, Fraser (*Cariboo*), Geary, Hackett, Hanson (*York-Sunbury*), Howard, Hurtubise, Irvine, Jacobs, Lapointe, Lawson, Mackenzie (*Vancouver Centre*), McPhee, Michaud, Perley (*Qu'Appelle*), Power, Rhodes, Robinson, Smith (*Cumberland*), Smoke, Spencer, Stanley, Sullivan, Vallance, White (*Mount Royal*), Willis—40.

The following proposed amendments to Bill 18, An Act respecting Banks and Banking, were accepted as notices of motion:—

Proposed by Mr. Duff,—

55 (17) That the following be inserted as subsection (17) of section fifty-five of Bill 18:—

> (17) A person appointed under this section to audit the affairs of a bank shall not during the term for which such person is appointed accept any retainer or undertake any employment on behalf of such bank other than that of auditor hereunder; provided nothing herein contained shall prevent such person from being retained or employed to inquire into or deal with any situation arising out of or connected with the financial position or affairs of any borrower from or customer of the bank or from performing such other services with respect to such borrower or customer as the bank or the directors thereof may deem necessary or expedient for the protection of the benefit of the bank; and failure to comply with the provisions of this subsection shall be an offence against this Act.

Proposed by Mr. Rhodes:

(60). That the proviso at the end of subsection (20) of section sixty of Bill 18 be struck out and the followng substituted therefor:

> Provided, however, that the Governor in Council shall have power from time to time to make such amendments and additions to the items required to be set forth in the said Schedule *as he may deem expedient.*

Proposed by Mr. Rhodes:

114 (11). That section one hundred and fourteen of Bill 18 be amended by adding thereto the following as subsection (11):

> (11). The bank shall once in each year transmit or deliver to the Minister a return of all loans made by the bank within Canada outstanding at a date to be specified by the Treasury Board, classified accord-to industries and businesses, and the Treasury Board may make such regulations as may be deemed necessary to give effect to the provisions of this subsection.

Proposed by Mr. Rhodes:

160 (2). That section one hundred and sixty of Bill 18 be amended by adding thereto the following as subsection (2):

> (2). Every bank which neglects to transmit or deliver to the Minister, within the time prescribed by regulations of the Treasury Board, a certified return showing the aggregate amount of all loans made by the bank within Canada at a date to be specified by the Treasury Board, classified according to industries and businesses, shall incur a penalty of fifty dollars for each and every day during which such neglect continues.

The Chairman, in reply to an inquiry of Mr. Mackenzie *(Vancouver Centre)*, intimated that he understood that Mr. G. G. McGeer, K.C., M.L.A., Victoria, B.C., is *en route* to Ottawa, entirely on his own initiative, and not at the request of this Committee. At the meeting of the Committee, on Tuesday, May 1st, next, it will be determined, by the Committee, whether or not Mr. McGeer will be allowed to make representations and the ground which those representations, if any, shall cover.

The Committee then considered certain Private Bills on the Order Paper of the Committee.

The Committee took recess until 4 p.m.

AFTERNOON SESSION

The Committee resumed at 4 p.m.

Consideration resumed of Bill 18, An Act respecting Banks and Banking.

Section 21 considered.

Amendment of Mr. Power, proposed on March 8, viz.: "That section twenty-one of Bill 18 be amended by adding the following thereto as subsection (5): '(5). No person shall be appointed or elected, or shall continue to hold office as a Director who, (*a*) is not a British Subject ordinarily resident in Canada, or (*b*) is a Director of any Trust Company, Insurance Company, Investment or Loan Company, or of any financial institution doing public business' " considered.

Clause (*a*) of the proposed amendment was, by leave, withdrawn.

Paragraph (*b*) was declared lost, on division.

The names being called for, they were taken down as follows: Yeas: Messieurs Coote, Irvine, Michaud, Power, and Spencer.—5. Nays: Messieurs Chaplin, Duff, Fraser *(Cariboo)*, Hackett, Lawson, Smith *(Cumberland)*, Stanley, Sullivan, White *(Mount Royal)*.—9.

The amendment was again declared passed in the negative.

Section 21 adopted, on division.

Section 53 considered.

Amendment proposed by Mr. Coote, on March 15, viz.: "That subsection (2) of section fifty-three of Bill 18 be amended by adding the following thereto as subparagraph (*p*): (*p*) The amount of deposits and loans for each province and the average rate of interest charged in each province."

The words "The amount of deposits and loans for each province and" were, by leave, withdrawn.

The amendment, as thus amended, was lost, on division.

Amendment proposed by Mr. Coote, on March 15, viz.: "That subsection (3) of section fifty-three of Bill 18 be amended by adding the following thereto as subparagraph (*z*): '(*z*) Classification of total loans for different industries or services in such form as may be approved by the Minister'."

The Minister intimated that a notice of motion standing in his name, as a proposed amendment to section 114, was almost identical in terms with the amendment under consideration. Mr. Coote's amendment was, by leave, withdrawn, as was that proposed by Mr. Spencer on March 15.

Amendment proposed by Mr. Rhodes, on March 13, viz.: "That subsection (4) of section fifty-three of Bill 18 be struck out and the following substituted therefore: '(4) The Governor in Council shall have power from time to time to make such amendments and additions to the items required to be set forth in the said statement *as he may deem expedient*, considered and adopted'."

Section 53, as thus amended, adopted.

Section 55 considered.

On motion of Mr. Duff:—

Resolved: That subsection (17) of section fifty-five be struck out. Adopted.

Mr. Duff moves, seconded by Mr. Geary, That the following be accepted as a notice of motion of a proposed amendment to section fifty-five. (See notices of motion hereinbefore set out.)

Section 56 considered.

Mr. C. S. Tompkins, Inspector General of Banks, Department of Finance, Ottawa, was recalled, made a statement and was questioned thereon.

Witness filed Exhibit 38: List of shareholders' auditors of Canadian Chartered Banks, 1934. (Printed as Appendix "AB.")

Further consideration of Bill 18 postponed until the next meeting.

The Committee adjourned to meet on Tuesday, May 1, next, at 10 a.m.

HOUSE OF COMMONS,

TUESDAY, May 1, 1934.

The Select Standing Committee on Banking and Commerce met this day at 10 a.m.

Mr. R. B. Hanson in the Chair.

Members present: Messieurs Arthurs, Baker, Beynon, Bothwell, Bowman, Casgrain, Chaplin, Coote, Donnelly, Duff, Euler, Fraser (*Cariboo*), Fraser (*Northumberland, O.*), Gagnon, Geary, Hanson (*York-Sunbury*), Hurtubise, Irvine, Jacobs, Lapointe, Lawson, Mackenzie (*Vancouver Centre*), MacMillan (*Saskatoon*), Michaud, Morand, Perley (*Qu'Appelle*), Power, Raymond, Rhodes, Robinson, Smith (*Cumberland*), Spencer, Stanley, Sullivan, White (*Mount Royal*), Willis—39.

Mr. Jackson Dodds, President, Canadian Bankers' Association filed,—

Exhibit 39.—Statement showing number of Canadian branches and sub-agencies of Chartered Banks closed in years 1931 to 1933, inclusive, and to the end of March, 1934. (Printed as Appendix "AC".)

Mr. G. G. McGeer, K.C., M.L.A., Vancouver, B.C., was called, made a statement and was questioned.

The following booklets were filed, for the use of the Committee:—

Exhibit 40.—"Let's Talk Money and Banking," by Arthur I. Judge, Editor, "The Canning Trade," The Journal of the Canned Foods Industry, Baltimore, Md. (Distributed to the Committee.)

Exhibit 41.—"Money and Credit and Its Management," an address delivered by G. G. McGeer, Esq., K.C., at Annual Meeting of (B.C. Division) Canadian Credit Men's Trust Association, Vancouver, B.C., April 21, 1932.

Exhibit 42.—"The Conquest of Poverty," National Banking, Planned Economy and Balanced Government, A Plan for Canada, presented to Labour in a Report, upon the MacMillan Banking Commission, to The Vancouver, New Westminster and District Trades and Labour Council, by G. G. McGeer, K.C.

Exhibit 43.—A draft bill incorporating the Bank of Canada "empowered to manage and regulate the monetary system of the nation and to act as the Bank of the Government of the Dominion of Canada, of the Governments of the Provinces and of local governmental bodies, and also of all public utility corporations; and to provide banking facilities for industry and commerce engaged in the domestic and international trade and other commercial activities of the nation. The duty of the Bank of Canada shall be to regulate and control the creation and issue of the nation's purchasing power medium of exchange and so far as lies within its power to co-operate in controlling and protecting the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, prices, wages, and employment and to promote the stability of government, the progress of the standard of living, the going concern activity of the social and economic welfare of the people of the Dominion".

The Committee took recess at 1 p.m.

AFTERNOON SESSION

The Committee reconvened at 4 p.m.

Submission continued of Mr. McGeer.

Exhibit 44.—Charts to which Mr. McGeer referred are printed as appendices AD(1), AD(2), AD(3), AD(4).

After Mr. McGeer had concluded his submission, he was questioned.

At 6 p.m. the Chairman announced that at the next meeting of the Committee consideration would be resumed of Bill 18, An Act respecting Banks and Banking.

The Committee adjourned to meet on Thursday, May 3, next, at 10 a.m.

HOUSE OF COMMONS,

THURSDAY, May 3, 1934.

The Select Standing Committee on Banking and Commerce met this day at 10 a.m.

Mr. R. B. Hanson in the Chair.

Members present: Messieurs Arthurs, Baker, Beynon, Bothwell, Bowman, Casgrain, Chaplin, Coote, Donnelly, Duff, Ernst, Euler, Fraser (*Cariboo*), Fraser (*Northumberland, O.*), Gagnon, Geary, Hackett, Hanson (*York-Sunbury*), Harris, Howard, Hurtubise, Irvine, Jacobs, Lapointe, Lawson, Mackenzie (*Vancouver Centre*), MacMillan (*Saskatoon*), McGibbon, McPhee, Michaud, Morand, Perley (*Qu'Appelle*), Rhodes, Robinson, Sanderson, Smith (*Cumberland*), Smoke, Spencer, Stanley, Vallance, White (*Mount Royal*), Willis—41.

On motion of Mr. McGibbon,—

Resolved: That the first order of business be the resuming consideration of Bill 18, An Act respecting Banks and Banking.

After discussion, and agreement that Mr. G. G. McGeer, K.C., M.L.A., of Vancouver, be further cross-examined, the above motion was by leave, withdrawn.

Mr. McGeer was recalled and further examined.

Witness discharged.

On motion of Mr. Spencer,—

Resolved: That Mr. McGeer's travelling expenses and expenses in Ottawa be paid.

Adopted unanimously.

Consideration resumed of Bill 18.

Mr. J. B. Reed, of North Hatley, Quebec, Financial Secretary, Quebec Branch, United Farmers of Canada, was called, made a statement and was examined thereon.

It was agreed that Mr. Jackson Dodds, General Manager, The Bank of Montreal, of which Bank the witness is a customer, should be permitted to cross-examine the witness.

Witness discharged.

On motion of Mr. MacMillan (*Saskatoon*),—

Resolved: That the payment of the expenses of Mr. J. B. Reed be authorized.

Adopted unanimously.

Mr. C. S. Tompkins, Inspector General of Banks, recalled. He concluded his statement with reference to section 56 of Bill 18 and was questioned thereon.

Section 56, as amended, adopted.

Section 55 considered.

The amendment thereto proposed by Mr. Duff on April 26th, last, was, by leave, withdrawn and the following substituted therefor:—

> 55(17) A person appointed under this section to audit the affairs of a bank shall not during the term for which such person is appointed accept any retainer or undertake any employment on behalf of such bank other than that of auditor hereunder; provided nothing herein contained shall prevent such person from being retained or employed to inquire into or deal with any situation arising out of or connected with the financial position or affairs of any borrower from or customer of the bank or *from* performing such other services with respect to such borrower or customer as the *directors of the bank, in any of the foregoing circumstances,* may *by resolution declare to be* necessary or expedient for the protection *or* benefit of the bank; and failure to comply with the provisions of this subsection shall be an offence against this Act.

Subsection stands for further consideration.

Section 55 otherwise adopted.

Section 57 considered.

Amendment proposed by Mr. Coote on March 8th, last, viz: That section fifty-seven, subsection (1), of Bill 18, be amended by inserting immediately after the word "dividends" in the third line of the said subsection the words "not exceeding the rate of six per centum per annum," considered.

By leave, Mr. Coote withdraws the words "not exceeding six per centum per annum" and substitutes therefor the words: "not exceeding six per centum per annum on the paid up capital on the bank plus such amount as has been accumulated from the proceeds received from the sale of the capital stock of the bank." This amendment was considered, but was lost on division.

Mr. Irvine then moved to substitute the words "not exceeding the rate of six per centum per annum on the paid up capital stock plus accumulated rest or reserve funds," Lost, on division.

Section 57 adopted.

Section 58 adopted.

Section 59 considered.

On motion of Mr. Rhodes,—

Resolved: That subsection (4) of section fifty-nine of Bill 18 be amended by striking out the words "always be equal to" in the fifth line thereof and substituting therefor the words "subject to the provisions of the Bank of Canada Act, be not less than,"

Adopted.

Section 59, as amended, stands for further consideration.

Section 60 considered.

Amendment thereto, proposed by Mr. Rhodes, on April 26th, last, viz: That the proviso at the end of subsection (20) of section sixty of Bill 18 be struck out

and the following substituted therefor: Provided, however, that the Governor in Council shall have power from time to time to make such amendments and additions to the items required to be set forth in the said Schedule *as he may deem expedient*, considered and adopted.

Section 60, as amended, adopted.

Section 61 considered.

Amendment thereto, proposed by Mr. Rhodes, on April 24th, last, viz: That section sixty-one of Bill 18 be amended by adding thereto the following as subsection (4):—

> "4. In the case of a bank authorized to commence business after the day on which this section comes into force, the said bank shall be subject to the provisions of this section as if it had been authorized to commence business on the day on which this section comes into operation," considered and adopted.

Section 61, as amended, adopted.

Section 62 adopted.

Section 64 stands for further consideration.

Section 75 considered.

Amendment thereto proposed by Mr. Spencer on March 8th, last, viz: That section seventy-five, subsection (2), of Bill 18, be amended by adding thereto as paragraph (*g*) the following:—

> "(*g*) Lend money or make advances in excess of ten per centum of its paid-up capital and reserve to any one person, firm or corporation *without the consent of the Executive Committee of the Bank of Canada*" considered and lost on division.

By leave, the underlined words were withdrawn and the following, proposed by Mr. Coote, substituted therefor:—

> "without the consent of the Inspector General of Banks".

Lost, on division.

Mr. Irvine, moved that the amendment be adopted with the underlined words omitted.

Lost, on division.

Amendment thereto proposed by Mr. Coote, on March 8th, last, viz:—

> That section seventy-five of Bill 18 be amended by adding thereto as subsection five the following:—
>
> "(5) The bank shall not either directly or indirectly engage in stock market transactions nor lend money or make advances from the funds of the bank to any director or officer of the bank, or to any other person, with or without security, which moneys are to the knowledge or information of any director or officer of the bank to be used in stock market transactions or speculations nor shall the bank sell or hold shares or indirectly assist any person, firm, corporation or company to maintain, raise or lower the market price of any stock or to control the market price thereof," considered and lost.

Section 75 adopted.

The Committee took recess at 1 p.m.

AFTERNOON SESSION

The Committee reconvened at 4 p.m.

The Chairman announced that during the recess the subcommittee had interviewed Mr. E. S. Woodward, of Vancouver, B.C., National Executive Secretary, The Free Economy League of Canada, and recommend that Mr. Woodward be heard as a witness.

Mr. E. S. Woodward was called, made a statement and was questioned thereon.

Witness filed,—

Exhibit 45: Suggested sample of a Gesell Scientific Currency Note. (Printed as Appendix AE.)

Witness discharged.

On motion of Mr. Coote,—

Resolved: That the payment of travelling expenses and expenses in Ottawa of Mr. Woodward be authorized.

Adopted unanimously.

On motion of Mr. Lawson,—

Resolved: That in the absence of the Chairman, the honourable member for Stanstead (Mr. Hackett) be Vice-Chairman.

Adopted.

Consideration resumed of Bill 18, An Act respecting Banks and Banking.

Section 76 considered.

Amendment thereto, proposed by Mr. Howard, on March 13th, last, viz:—

> That section seventy-six of Bill 18 be amended by striking out subsection (2) of the said section and substituting therefor the following:—
>
> "(2) The bank may, after the debt has accrued and become payable, sell such shares, but consent of the owner of the shares must be obtained before selling. And in case the bank and its debtor cannot agree the whole matter shall be submitted to the Governor of the Bank of Canada for his decision, which decision shall be binding on both parties," considered and lost.

Further amendment thereto, proposed by Mr. Howard, on March 13th, last, viz:—

> 76 (3) That section seventy-six of Bill 18 be amended by striking out from subsection (3) of the said section the words "upon the sale being made" and substituting therefor the words "upon the decision of the Governor of the Bank of Canada being received," considered and, by leave, withdrawn.

Section 76 adopted.

Section 77 considered.

Amendment of Mr. Howard, proposed on March 13th, last, viz:—

> That subsection (1) of section seventy-seven of Bill 18 be amended by striking out all the words after the word "Act" in the tenth line down to and including the word "same" in the thirteenth line of the said subsection, considered and lost, on division. Messieurs Howard and Robinson ask that their dissent be recorded.

Section 77 adopted.

Section 78 adopted. Mr. Coote intimated that at a later date he would consider the advisability of giving notice of motion for reconsideration of this section.

Section 79 adopted.

Section 90 adopted.

Sections 92, 93 and 94 stand for further consideration.

Section 95 adopted.

The Chairman announced that he had taken a straw vote as to whether or not the Committee would agree to meet to-morrow, Friday, at 10.00 a.m. By a vote of 15 to 10 the Committee was in favour of sitting on the day and at the time indicated.

The following were accepted as notices of motion of proposed amendments to Bill 18.

Proposed by Mr. Rhodes,—

64. That section sixty-four of Bill 18 be amended as follows:

1. By substituting for subsection (6) the following:—

(6) The circulation Fund shall bear interest at the rate of three per centum per annum.

2. By inserting in subsection (8) after the words "Circulation Fund" in the fifth line of the said subsection, the words "and all interest due or accruing due thereon."

3. By renumbering the subsections following the proposed new subsection (6).

Proposed by Mr. Rhodes,—

66. That subsection (2) of section sixty-six of Bill 18 be amended by inserting after the word "payment" in the third line of the said subsection the words "and all interest due or accruing due to such bank thereon."

The Committee adjourned to meet on Friday, May 4th, next, at 10.00 am.

House of Commons,

Friday, May 4, 1934.

The Select Standing Committee on Banking and Commerce met this day at 10 a.m.

Mr. R. B. Hanson in the chair.

Members present: Messieurs Beynon, Bothwell, Casgrain, Chaplin, Coote, Donnelly, Duff, Fraser (*Cariboo*), Gagnon, Geary, Hackett, Hanson (*York-Sunbury*), Hurtubise, Irvine, Jacobs, MacMillan (*Saskatoon*), McGibbon, McPhee, Michaud, Morand, Perley (*Qu'Appelle*), Power, Rhodes, Robinson, Smith (*Cumberland*), Smoke, Spencer, Stanley, Sullivan, Vallance, White (*Mount Royal*), Willis—32.

The following were accepted as notices of motion of proposed amendments to Bill 18, An Act respecting Banks and Banking:—

Proposed by Mr. Coote,—

138. That section one hundred and thirty-eight of Bill 18 be amended by adding the following subsection thereto:—

> (5) The provisions of this section shall not apply to scrip issued by any municipality or school district.

Proposed by Mr. Irvine,—

138. That section one hundred and thirty-eight of Bill 18 be amended by the insertion therein of the following proviso:—

> Provided that this section shall not be construed to prohibit the issue and exchange of trading orders and merchandise certificates, not redeemable in cash, for use and exchange amongst its members by legally constituted co-operative trading organizations in any Province of Canada.

Consideration resumed of Bill 18, An Act respecting Banks and Banking.

Section 88 considered.

Amendment thereto of Mr. Casgrain, proposed on March 13, last, viz.:—

> That subsection (7) of section eighty-eight of Bill 18 be amended by adding after the word "months" in the eleventh line thereof, the following words: "And any claim by an unpaid vendor, of or in respect to such products, wares, goods and merchandises to the amount remaining unpaid" and by adding after the word "remuneration" in the thirteenth line thereof, the words "and such claim of an unpaid vendor,"

considered.

There was full discussion. Mr. C. S. Tompkins, Inspector General of Banks; Mr. Jackson Dodds, President, Canadian Bankers' Association; Mr. Beaudry Leman, Past President, Canadian Bankers' Association and Vice-President and General Manager, Banque Canadienne Nationale; and Mr. Henry Ross, Secretary, Canadian Bankers' Association, were heard.

The amendment was declared lost.

The names being called for, they were recorded as follows:—

Yeas: Messieurs Casgrain, Coote, Hurtubise and Power—4.

Nays: Messieurs Bothwell, Chaplin, Fraser (*Cariboo*), Gagnon, Hackett, Irvine, Perley (*Qu'Appelle*), Robinson, Smoke, Spencer, Stanley, Vallance, White (*Mount Royal*)—13.

The amendment was again declared lost.

Amendment proposed by Mr. McGibbon, on March 13, last, viz.:—

That subsection (7) of section eighty-eight of Bill 18 be amended by adding thereto the following as a proviso:—

"Provided further that if a bank represents that a person, firm, company or corporation is solvent and entitled to credit for goods, wares and merchandise ordered, and such person, firm, company or corporation is, or within six months thereafter, becomes insolvent or files a petition in bankruptcy, and it is ascertained that the liabilities of such person, firm, company or corporation exceed the assets thereof by fifty per centum, the bank shall lose the right of a preferred creditor and one-half of any lien to which it may be entitled under the provisions of this Act," considered and lost, on division.

Amendment proposed by Mr. Perley (*Qu'Appelle*), on March 22, last, viz.:—

88 (8) That subsection (8) of section eighty-eight of Bill 18 be amended by adding thereto the following words:—

And for the purchase of binder twine upon the security of any of the crop with respect to which such binder twine is to be used.

was, by leave, withdrawn and the following substituted therefor:—

That subsection 8 and 9 of section 88 be amended to read as follows (new matter underlined), and that Schedules E, F, G, H and I to this Act become respectively F, G, H, I and J to this Act:—

88 (8) The bank may lend money to the owner, tenant or occupier of land for the purchase of seed grain upon the security of any crop to be grown from such seed grain, *and for the purchase of binder twine upon the security of the crop grown by the borrower and which is about to be harvested.*

(9) The security taken under subsection (8) of this section *for money lent for the purchase of seed grain or for money lent for the purchase of binder twine*, may be taken *in the relevant and appropriate* form set forth in Schedule D, *or Schedule E, as the case may be,* to this Act or in a form to the like effect.

Copy of new Schedule E is as follows:—

SCHEDULE E

(Section 88 (9)).

In consideration of an advance of .... dollars made by the .... Bank to A. B., for which the said bank holds the following bills or notes: (*describe the bills or notes, if any*) (*or,* in consideration of the discounting of the following bills or notes by the .... Bank for A. B.: (*describe the bills or notes*)) and inasmuch as the said advance (*or* the said discounting, *as the case may be*) was made on the representation that binder twine would be purchased with the advance (*or* the proceeds of the discounting, *as the case may be*) and would be used in the harvesting of the crop grown by the borrower, such crop and grain

threshed therefrom are hereby assigned to the said Bank as security for the payment, on or before the ....day of ...., of the said advance, together with interest at the rate of .... per centum per annum from the ....day of .... (*or*, of the said bills or notes, or renewals thereof, or substitutions therefor, and interest thereon, *as the case may be*).

This security is given under the provisions of subsection eight of section eighty-eight of the Bank Act and is subject to the provisions of the said Act.

Dated at ....

Amendment adopted.

Subsection (10) of section eighty-eight amended by inserting after the words "seed grain" where they occur in the third and eighth lines of the said subsection the words "or binder twine."

Mr. Fraser *(Cariboo)* proposed that subsection (19) of section eighty-eight be amended by making it possible that the notice of intention provided for by this section shall be registered not in the office of the Assistant Receiver but at some appointed County Office.

It was agreed that the subcommittee should consider the advisibility of amending those subsections of section eighty-eight which deal with the registration and cancellation of the notice of intention. The matter of the subrogation of the rights of a guarantor to be considered at the same time.

Subsections 17, 18, 19, 20, 21, 25, 27 and 28 of section eighty-eight stand for further consideration; otherwise the section is adopted, as amended.

Section 89 considered.

Amendment proposed by Mr. Casgrain, on March 13th, last, viz:—

> That subsection (2) of section eighty-nine of Bill 18 be amended by striking out all the words commencing with the word "who" in the ninth line thereof, down to the end of this subsection and substituting therefor the words "of or in respect to such products, goods, wares and merchandises to the amount remaining unpaid," considered and lost.

Section 89 adopted.

Section 90 adopted.

Section 91 considered.

Amendment proposed by Mr. Beynon, on March 13th, last, viz:—

> That subsection (1) of section ninety-one of Bill 18 be amended by striking out all the words after the word "and" where it occurs in the fifth line of the said subsection and substituting therefor the following:—
>
> Should the bank stipulate for, charge, take, reserve, or exact, any rate of interest exceeding seven per centum per annum, or should the bank charge, take, reserve, or exact, by way of discount any higher rate than seven per centum per annum, upon any money loaned by the bank or upon any debt owing to the bank, then and in every such case, the bank shall be forever barred from recovering the amount so loaned or the debts so owing and in respect of which, such rate, more than seven per centum per annum, has been charged, taken, reserved, or exacted, whether by way of interest or discount. The bank shall likewise be forever barred from recovering from the borrower, or debtor, as the case may be, any

interest when the rate charged exceeds seven per centum per annum, and the debtor may recover from the bank by action in any court of competent jurisdiction any sum charged, taken, reserved, or exacted by way of discount when the rate thereof exceeds seven per centum per annum. Should anyone claiming through or under any bank, recover any sum, either as principal or interest, which by reason of the provisions of this subsection the bank itself could not have recovered, the bank shall forthwith indemnify and reimburse the debtor from whom such sum was recovered, the full amount so recovered from him, whether as principal, interest, or costs, charged, or expenses, and the debtor may recover the same from the bank by action in any court of competent jurisdiction together with the costs of such action," considered.

The amendment was declared lost.

The names being called for they were taken down as follows: Yeas: Messieurs Beynon, Coote, Irvine, Power and Spencer—5. Nays: Messieurs Fraser *(Cariboo)*, Hackett, Rhodes, Robinson, Stanley, Sullivan, White *(Mount Royal)*.—7.

The amendment was again declared lost, on division.

Section 91 adopted.

The Committee adjourned to meet on Tuesday, May 8, next, at 10 a.m.

HOUSE OF COMMONS,

TUESDAY, May 8, 1934.

The Select Standing Committee on Banking and Commerce met this day at 10 a.m.

The Vice-Chairman, Mr. Hackett, in the Chair.

The Right Honourable the Prime Minister (Mr. Bennett) represented the Government in the regrettable absence of the Honourable the Minister of Finance (Mr. Rhodes).

Members present: Messieurs Arthurs, Beynon, Bothwell, Bowman, Chaplin, Coote, Donnelly, Dorion, Ernst, Euler, Fraser (*Cariboo*), Gagnon, Geary, Hackett, Hanson (*York-Sunbury*), Hurtubise, Irvine, Jacobs, Lawson, Mackenzie (*Vancouver Centre*), MacMillan (*Saskatoon*), McGibbon, McPhee, Mercier (*St. Henri*), Michaud, Morand, Perley (*Qu'Appelle*), Ralston, Raymond, Robinson, Sanderson, Smith (*Cumberland*), Smoke, Spencer, Stanley, Sullivan, White (*Mount Royal*), Willis—39.

Mr. Jackson Dodds, President, Canadian Bankers' Association, recalled.

Witness filed:—

Exhibit 46: Return to an Order of the Committee on motion of Mr. Morand, dated April 24, 1934. (For text of order and return thereto, see Minutes of Evidence.)

The Committee resumed consideration of Bill 18, An Act respecting Banks and Banking.

By unanimous consent, section 91 reconsidered, on motion of Mr. Spencer.

Subsections (1), (2) and (3) adopted.

Subsection (4) adopted, on division.

Section 91 adopted, on division.

Sections 92, 93 and 94 adopted.

By unanimous consent, section 95 reconsidered, on motion by Mr. Bennett, on behalf of Mr. Rhodes.

Proposed, on behalf of Mr. Rhodes: "That paragraph (*b*) of subsection (1) of section 95 be struck out and the following substituted therefor: '(*b*) from time to time *pay* any or all of the principal thereof, and *any or all* of the interest thereon, to *or to the order of* such person, unless before such *payment* the money so deposited in the bank is lawfully claimed as the property of some other person'."

Amendment adopted.

Section 95, as amended, adopted.

Section 96 considered.

Amendment thereto proposed by Mr. Lawson, on April 24th, last, viz:

"That subsections (2) and (3) of section ninety-six of Bill 18 be repealed and the following be substituted therefor, the new portions being in italic:—

"(2) *If any deposit made under the authority of this Act is subject to a trust of which* the bank has notice, the receipt *or cheque* of the person in whose name any such deposit stands, or, if it stands in the names of two *or more than two* persons, the receipt *or cheque of all such persons* shall, notwithstanding any trust to which such deposit is then subject, be a sufficient discharge to all concerned for the payment of any money payable in respect of such deposit, and the bank shall not be bound to see to the application of any money paid upon such receipt *or cheque.*

(3) Except only in the case of a lawful claim by some other person before repayment, the receipt *or cheque* of the person in whose name any deposit stands, or, if it stands in the name of two persons, the receipt *or cheque* of one, or if it stands in the names of more than two persons the receipt *or cheque* of a majority of such persons, shall be a sufficient discharge to all concerned for the payment of any money payable in respect of such deposit," considered and adopted.

Section 96, as amended, adopted.

Sections 99, 100, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111 adopted.

Section 112 considered.

Amendment thereto, proposed by Mr. Rhodes, on March 13, viz:

"That subsection (1) of section one hundred and twelve of Bill 18 be amended by deleting the said subsection and substituting therefor the following:—

"(1) The bank shall, within the first twenty-eight days of each month, transmit or deliver to the Minister a return in the form set forth in Schedule G to this Act: Provided, however, that the Governor in Council shall have power from time to time to make such amendments and additions to the said schedule *as he may deem expedient*," considered and adopted.

Section 112, as amended, adopted.

Section 114 considered.

Subsections (1) to (7) inclusive, adopted.

Amendment proposed by Mr. Irvine, on March 8, last, viz:

"That the following be inserted immediately after subsection seven (i) of section one hundred and fourteen of Bill 18:—

"(7) (*i*) Within sixty days after the close of each calendar year, the bank shall pay over to the Minister seventy-five per centum, with accumulated interest of the amount of all dividends which have remained unpaid for more than five years, and of the amount of all certified cheques, drafts or bills of exchange issued by the bank to any person and remaining unpaid for more than five years, and of all amounts or balances in respect of which no transactions have taken place or upon which no interest has been paid during the preceding five years, which amounts and balances are shown in the annual returns of unpaid dividends and balances required to be transmitted to the Minister by the bank under the provisions of the preceding subsections of this section.

(ii) Such moneys and all interest thereon shall, notwithstanding any statute of limitations or other Act relating to prescription, be held by the Minister subject to all rightful claims on behalf of any person other than the bank.

(iii) If a claim to any moneys so paid is thereafter established to the satisfaction of the Minister he may direct payment thereof to be made to the person entitled thereto together with interest on the principal sum thereof, at the rate of three per centum per annum for a period not exceeding six years from the date of payment thereof to the Minister as aforesaid; provided that no such interest shall be paid or payable on such principal sum unless interest thereon was payable by the bank paying the same to the Minister.

(iv) Upon payment to the Minister as herein provided, the bank and its assets shall be held to be discharged from further liability for the amounts so paid," considered and lost, on division.

Subsection (8) adopted.

Amendment proposed by Mr. Irvine on March 8th, last, viz:

" That section one hundred and fourteen of Bill 18 be amended by adding thereto as subsection (8*a*) the following:—

"(8*a*) The bank shall, within thirty days after the close of each calendar year, transmit or deliver to the Minister a return shewing the names and addresses of the directors of the bank and the banks, firms and companies of which they are directors or partners," considered and adopted.

Subsection (9) considered.

Subparagraphs (*a*), (*b*) and (*c*) adopted.

Mr. Irvine's amendment to become subparagraph (*d*), viz:

"(*d*) The names and addresses of the directors of the bank and the banks, firms and companies of which they are directors or partners."

Amendment proposed by Mr. Rhodes, on April 26th, last, viz:

" That section one hundred and fourteen of Bill 18 be amended by adding thereto the following as subsection (10):

(10) The bank shall once in each year transmit or deliver to the Minister a return of all loans made by the bank within Canada outstanding at a date to be specified by the Treasury Board, classified according to industries and businesses, and the Treasury Board may make such regulations as may be deemed necessary to give effect to the provisions of this subsection," considered and adopted.

On motion of Mr. Ralston:—

Resolved: That subsection (10) as thus amended be further amended by inserting therein after the words " return of " in the second line the words " the aggregate amount of."

Adopted.

Subsection, as thus further amended, adopted.

Section 114, as amended, adopted.

Section 117 considered.

On motion of Mr. Coote:—

Resolved: That subsection (1) of section one hundred and seventeen of Bill 18 be amended by striking out the words " The Association " where they occur therein and substituting therefor the words " The Bank of Canada."

Lost.

On motion of Mr. Coote:—

Resolved: That subsection (1) of section one hundred and seventeen of Bill 18 be amended by striking out the words "The Association" where they occur therein and substituting therefor the words "The Minister".

Adopted.

On motion of Mr. Ralston:—

Resolved: That subsection (1) of section one hundred and seventeen, as thus amended, be further amended by inserting after the word "appoint" in the third line of the said subsection the words "in writing".

Adopted.

On motion of Mr. Coote:—

Resolved: That subsection (2) of section one hundred and seventeen of Bill 18 be amended by striking out the words "The Association" where they occur in the said subsection and substituting therefor the words "The Minister".

Adopted.

On motion of Mr. Ernst:—

Resolved: That section one hundred and eighteen of Bill 18 be struck out and that subsection (2) of section one hundred and seventeen, as amended, become section one hundred and eighteen.

Adopted.

Sections 117 and 118, as amended, adopted.

Sections 119, 120, 121, 122 and 123 adopted.

Section 124 considered.

On motion of Mr. Ernst:—

Resolved: That subsection (1) of section one hundred and twenty-four of Bill 18 be amended by striking out paragraph (*a*).

Adopted.

On motion of Mr. Coote:—

Resolved: That subsection (1) of section one hundred and twenty-four of Bill 18 be further amended by inserting in paragraph (*f*) after the word "penalties" the words "not exceeding the sum of one thousand dollars".

Adopted.

Section 124, as amended, adopted.

Section 136 stands for further consideration.

Mr. R. B. Hanson, Chairman, now resumes the Chair.

Section 137 adopted.

Section 138 considered.

Amendment thereto proposed by Mr. Coote, on March 15th, last, viz: "That Bill 18 be amended by deleting section one hundred and thirty-eight therefrom" considered and lost, on division.

Subsections (1) and (2) adopted.

Mr. Spencer gave the following notice of motion, which, by leave, was considered forthwith: "That section one hundred and thirty-eight of Bill 18 be amended by striking out subsection (3)." It was declared lost.

The names being called for they were taken down as follows:—

YEAS: Messieurs Coote, Irvine, Ralston, Spencer and Stanley—5.

NAYS: Messieurs Arthurs, Bothwell, Chaplin, Ernst, Fraser (*Cariboo*), Gagnon, Hackett, Hurtubise, Robinson, Smoke, White (*Mount Royal*)—11.

The amendment was again declared passed in the negative.

Subsection (3) adopted, on division.

Mr. Spencer gave the following notice of motion which, by unanimous consent, was considered forthwith: "That section one hundred and thirty-eight of Bill 18 be amended by striking out subsection (4).

Lost, on division.

Subsection (4) adopted, on division.

Amendment to section 138, proposed by Mr. Coote, on May 4th, last, viz:—

"That section one hundred and thirty-eight of Bill 18 be amended by adding the following subsection thereto:—

(5) The provisions of this section shall not apply to scrip issued by any municipality or school district," considered and declared lost.

The names being called for they were taken down as follows:—

YEAS: Messieurs Coote, Irvine and Spencer—3.

NAYS: Messieurs Arthurs, Bowman, Chaplin, Donnelly, Fraser (*Cariboo*), Hackett, Lawson, McGibbon, Robinson, White (*Mount Royal*)—10.

The motion was again declared passed in the negative.

The Committee took recess at 1 p.m.

AFTERNOON SESSION

The Committee reconvened at 4.30 p.m.

Consideration resumed of section 138.

Amendment proposed by Mr. Irvine, on May 4th, last, viz:—

"That section one hundred and thirty-eight of Bill 18 be amended by the insertion therein of the following proviso:—

Provided that this section shall not be construed to prohibit the issue and exchange of trading orders and merchandise certificates, not redeemable in cash, for use and exchange amongst its members by legally constituted co-operative trading organizations in any Province of Canada," considered and declared lost, on division.

Section 138 adopted, on division.

Section 151 considered.

On motion of Mr. Ernst:—

Resolved: That section one hundred and fifty-one of Bill 18 be amended in the following manner:—

1. By deleting paragraph (*f*) and the words "such bank shall incur a penalty not exceeding five hundred dollars".

2. By deleting the word "or" where it occurs in line thirty-seven and substituting the word "or" after the word "dollars" in line thirty-two.

3. By inserting after the word "dollars" in line thirty-seven the words "such bank shall incur a penalty not exceeding five hundred dollars".

Adopted.

On motion of Mr. Jacobs:—

Resolved: That the following be inserted as subsection (2) of section one hundred and fifty-one of Bill 18:—

"(2). If any bank, except as authorized by this Act, either directly or indirectly, lends money or makes advances in excess of five per centum of its paid-up capital to a director of the bank or to any company or corporation in which the president, general manager or a director of the bank is a partner or shareholder, as the case may be, without the approval of two-thirds of the directors present at a general meeting, or a meeting specially called for the purpose, of the Board, such bank shall incur a penalty not exceeding five *thousand* dollars."

Adopted.

Section 151, as amended, adopted.

It was agreed, on motion of Mr. Ralston, that section 75 should be reconsidered at the next meeting of the committee. In the meantime, the departmental officials will prepare a draft of the appropriate penalties to be inserted into that section.

The following was accepted as a notice of motion, filed on behalf of Mr. Rhodes:—

75(2)(*g*). "That subsection (2) of section seventy-five of Bill 18 be amended by inserting therein the following as paragraph (*g*):

"(*g*) Permit the name of the bank to appear, except as a banker for receiving applications, upon any prospectus or advertisement, unless such prospectus or advertisement is issued by or on behalf of the Government of Canada or of any province thereof, or of any city or municipality, or of any railway, express, telegraph or telephone company the rates of which are fixed or the tariff of the tolls of which are approved by the Board of Railway Commissioners for Canada, or unless the securities to be issued pursuant to the prospectus or advertisement are guaranteed by the Government of Canada or any province thereof."

Section 160 considered.

Amendment thereto, proposed by Mr. Rhodes on April 26th, last, viz:

"That section one hundred and sixty of Bill 18 be amended by adding thereto the following as subsection (2):—

(2). Every bank which neglects to transmit or deliver to the Minister, within the time prescribed by regulations of the Treasury Board, a certified return showing all loans made by the bank within Canada at a date to be specified by the Treasury Board, classified according to industries and businesses, shall incur a penalty of fifty dollars for each and every day during which such neglect continues," considered and adopted.

On motion of Mr. Ralston:—

Resolved: That subsection (2) of section one hundred and sixty as thus amended be further amended by inserting after the word "showing" in the third line thereof the words "the aggregate amount of".

Adopted.

The following was accepted as a notice of motion, filed on behalf of Mr. Rhodes:—

160(3). That section one hundred and sixty of Bill 18 be amended by adding thereto the following as subsection (3):—

"(3) Every bank which neglects to transmit or deliver within thirty days after the annual general meeting a return showing the name and address of each director elected thereat, together with a list of the banks, firms and companies of which he is a director or partner, or which neglects to transmit or deliver within thirty days after the selection of a person to fill a vacancy in the membership of the board of directors or in the office of president or vice-president, a similar return respecting such person, shall incur a penalty of fifty dollars for each and every day during which such neglect continues."

Section 160 to be further considered.

Section 166 considered.

The following was accepted as a notice of motion, proposed by Mr. Willis:—

166. That subsection (1) of section one hundred and sixty-six of Bill 18 be deleted and the following substituted therefor:—

"166. (1) Every person using the word 'bank', 'banker', or 'banking', or the words 'investment banker', 'savings bank', 'banking company', 'banking house', 'banking association', or 'banking institution', either alone or in combination with other words, or any word or words of import equivalent to any of the foregoing in any foreign language, in a sign or in an advertisement or to describe his business or any part of his business, without being authorized so to do by this Act, or by some other Act of the Parliament of Canada, is guilty of an offence against this Act."

Section 166 stands for further consideration and to permit the Committee to hear representations by the Canadian Investment Bankers' Association in connection with this proposed amendment.

Mr. Irvine, by leave, withdrew the amendment proposed by him, on March 13th, last, viz:—

"That Schedule G, a return prescribed to be transmitted to the Minister by the bank under the provisions of section one hundred and twelve of Bill 18, be amended by adding to the said Schedule, the following item, under the heading "assets".

"29a. Aggregate amount of loans to companies or corporations of which one or more directors are on the Board."

The following was accepted as a notice of motion proposed on behalf of Mr. Rhodes:—

113 (2). That section one hundred and thirteen of Bill 18 be reconsidered and be amended by striking out subsection (2) and substituting therefor the following:—

"(2). *The bank shall within thirty days* after the annual general meeting *transmit or deliver* to the Minister *a return showing* the name and address of each director elected thereat *together with a list of the banks, firms and com-*

panies of which he is a director or partner, and the names of the president and vice-presidents; and should any vacancy occur in the membership of the board of directors or in the office of president or vice-president, the *bank* shall forthwith *notify the Minister* of the name *and address* of the person by whom the vacancy has been filled *together with a list of the banks, firms and companies of which he is a director or partner.*"

Schedules A and B adopted.

Schedule C adopted, on division.

Schedule D adopted.

Schedule E, as proposed by Mr. Perley, on May 4th, last adopted.

SCHEDULE E

"*(Section 88 (9).)*

In consideration of an advance of........................dollars made by the..............................Bank to A.B., for which the said bank holds the following bills or notes: (*describe the bills or notes, if any*) (*or,* in consideration of the discounting of the following bills or notes by the ....Bank for A.B.: (*describe the bills or notes*)) and inasmuch as the said advance (*or* the said discounting, *as the case may be*) was made on the representation that binder twine would be purchased with the advance (*or* the proceeds of the discounting, *as the case may be*) and would be used in the harvesting of the crop grown by the borrower, such crop and grain threshed therefrom are hereby assigned to the said Bank as security for the payment, on or before the......................day of.................., of the said advance, together with interest at the rate of........per centum per annum from the....................day of..................(*or,* of the said bills or notes, or renewals thereof, or substitutions therefor, and interest thereon, *as the case may be*).

This security is given under the provisions of subsection eight of section eighty-eight of the Bank Act and is subject to the provisions of the said Act.

Dated at.........................."

Consideration of Bill 18 to be resumed at next meeting of the Committee.

The Committee adjourned to meet on Tuesday, May 15, at 10 a.m.

HOUSE OF COMMONS,

TUESDAY, May 15, 1934.

The Select Standing Committee on Banking and Commerce met this day at 10 a.m.

Mr. Hackett, Vice-Chairman, in the Chair.

The Right Honourable the Prime Minister (Mr. Bennett) represented the Government *vice* the Honourable the Minister of Finance (Mr. Rhodes).

Members present: Messieurs Arthurs, Baker, Beynon, Bothwell, Bowman, Chaplin, Coote, Donnelly, Dorion, Duff, Ernst, Euler, Fraser (*Cariboo*), Geary, Hackett, Harris, Howard, Hurtubise, Irvine, Jacobs, Lawson, McGibbon, McPhee, Michaud, Morand, Perley (*Qu'Appelle*), Power, Ralston, Raymond, Robinson, Sanderson, Smith (*Cumberland*), Smoke, Spencer, Stanley, Vallance, White (*Mount Royal*), Willis—38.

Consideration resumed of Bill 18, An Act respecting Banks and Banking.

On motion of Mr. Bennett, for Mr. Rhodes:—

Resolved: That paragraph (*e*) of section two of Bill 18 be amended by striking out the words "by The Canadian Bankers' Association" where they occur in the said paragraph.

Adopted.

Section 2, as thus amended, adopted.

Section 29 considered.

The following amendment thereto, proposed by Mr. Morand, was accepted as a notice of motion and, by leave, considered forthwith: That section twenty-nine of Bill 18 be amended by inserting the following as subsection (2*a*):—

(*a*) The Directors of the Bank shall file with the Minister, with the Bank's Annual Statement, a classification of its bank employees, such classification to be agreed upon with the Minister.

(*b*) The salaries, maximum, minimum and average, of each classification, and the number employed under each classification.

(*c*) The maximum, minimum and average age of employees in each classification.

(*d*) All additional compensations and pensions to employees, under each classification.

(*e*) The restrictions upon marriage of employees.

(*f*) Percentage of employees' salaries contributed to Pension Fund, and any additions made to such Fund by the Bank.

(*g*) The age at which Superannuation becomes effective.

That section twenty-nine of Bill 18 be further amended by inserting the following as subsection (2*b*):—

(2*b*) The Directors of the Bank shall file annually with the Minister the name, address, age and salary of each employee of the bank.

By leave of the Committee, Mr. S. H. Logan, Vice-President, The Canadian Bankers' Association, was heard.

After discussing the proposed amendment, it was agreed that Mr. Morand should be permitted to withdraw the proposed amendment and submit a re-draft thereof for consideration at the next sitting of the Committee.

Consideration of amendment to section 29, proposed by Mr. Irvine, on April 24th, last, viz:—

> That subsection (2) of section twenty-nine of Bill 18 be amended by adding thereto the following words:—
>
> Such officers, clerks and servants may have the right to organize for the purpose of protecting their interests in regard to such matters as wages, salaries, hours of labour and general working conditions.

Motion to amend lost.

The names being called for, they were taken down as follows: Yeas: Messieurs Coote, Dorion, Irvine, Power, and Spencer, 5; Nays: Messieurs Arthurs, Bothwell, Chaplin, Duff, Ernst, Fraser (*Cariboo*), McGibbon, Michaud, Raymond, Robinson, Smith (*Cumberland*), Smoke, Stanley, White (*Mount Royal*), 14.

The amendment was again declared as passed in the negative.

On motion of Mr. Bowman, and by leave, section 20 was reconsidered.

The Right Honourable the Prime Minister made a statement with reference to bank directorates. Discussion followed.

Section 55 further considered.

Consideration of amendment thereto, proposed by Mr. Duff, on May 3rd, last, viz:—

> A person appointed under this section to audit the affairs of a bank shall not during the term for which such person is appointed accept any retainer or undertake any employment on behalf of such bank other than that of auditor hereunder; provided nothing herein contained shall prevent such person from being retained or employed to inquire into or deal with any situation arising out of or connected with the financial position or affairs of any borrower from or customer of the bank or *from* performing such other services with respect to such borrower or customer as the *directors of the bank, in any of the foregoing circumstances,* may *by resolution declare to be* necessary or expedient for the protection *or* benefit of the bank; and failure to comply with the provisions of this subsection shall be an offence against this Act.

Amendment adopted.

Section 55, as thus amended, adopted.

Section 59 further considered.

On motion of Mr. Bennett, on behalf of Mr. Rhodes,

Resolved: That section 59 of Bill 18, as amended on May 8th, last, viz: "by striking out the words 'always be equal to' in the fifth line of subsection (4) of the said section and by substituting therefor the words 'subject to the provisions of the Bank of Canada Act, be not less than'," be adopted.

Section 59, as amended, adopted.

Carried.

Section 64 further considered.

Consideration of amendments thereto, proposed by Mr. Rhodes on May 3rd, last, viz:—

That section sixty-four of Bill 18 be amended as follows:—

1. By substituting for subsection (6) the following:—

(6) The circulation Fund shall bear interest at the rate of three per centum per annum.

2. By inserting in subsection (8) after the words "Circulation Fund" in the fifth line of the said subsection, the words "and all interest due or accruing due thereon."

3. By renumbering the subsections following the proposed new subsection (6).

On motion of Mr. Bennett, for Mr. Rhodes:—

Resolved: That the above amendment be amended to read:—

1. By adding at the end of the present subsection (6) the words: "Such Fund shall bear interest at the rate of three per centum per annum";

2. By deleting paragraph 3 of the amendment proposed on May 3rd, since renumbering of the subsections is not now necessary.

Adopted.

Paragraph 2 of the amendment to section 59, as proposed on May 3, last, adopted.

Section 64, as amended, adopted, on division.

Section 66 further considered.

Consideration of amendment thereto, proposed by Mr. Rhodes, on May 3rd, last, viz:—

That subsection (2) of section sixty-six of Bill 18 be amended by inserting after the word "payment" in the third line of the said subsection the words "and all interest due or accruing due to such bank thereon."

Amendment adopted.

Section 66, as amended, adopted.

Section 75 further considered.

Consideration of amendment thereto, proposed on behalf of Mr. Rhodes, on May 8th, last, viz:—

That subsection (2) of section seventy-five of Bill 18 be amended by inserting therein the following as paragraph (*g*):—

(*g*) Permit the name of the bank to appear, except as a banker for receiving applications, upon any prospectus or advertisement, unless such prospectus or advertisement is issued by or on behalf of the Government of Canada or of any province thereof, or of any city or municipality, or of any railway, express, telegraph or telephone company the rates of which are fixed or the tariff of the tolls of which are approved by the Board of Railway Commissioners for Canada, or unless the securities to be issued pursuant to the prospectus or advertisement are guaranteed by the Government of Canada or any province thereof.

Amendment adopted

On motion of Mr. Bennett, on behalf of Mr. Rhodes:—

Resolved: That section 75 of Bill 18 be further amended by striking out the words "agent or manager" in the first line of subsection (4) of the said section and substituting therefor the words "manager or other officer."

Adopted.

Section 75, as amended, adopted.

It was agreed, at the last sitting of the Committee, that appropriate penalties for the breach of the provisions of subsections (3) and (4) of section 75 should be drafted. These penalties are inserted in the new section one hundred and fifty-one, to be considered later to-day.

Section 88 further considered.

The following amendment thereto proposed by Mr. White (*Mount Royal*), for Mr. Hackett, was received as a notice of motion and, by leave, considered forthwith:—

> That the following be inserted as subsection (29) of section 88 of Bill 18:—
>
> "29. Any person, desiring to ascertain whether a notice of intention or certificate of release has been registered by any other person pursuant to this section, may make enquiry by sending a prepaid telegram addressed to the Assistant Receiver, and it shall be the duty of the Assistant Receiver, without payment of any fee prescribed in the next preceding subsection, to make the necessary inspection of the registration book and of the relative documents, if any, and to make answer to the enquiry of the sender by a telegraphic message at the expense of the sender, and stating therein the name of the bank mentioned in the notice of intention."

On motion of Mr. Ralston:—

Resolved: That the proposed amendment be amended by inserting after the words "prepaid telegram" the words "or other written communication."

Carried.

Amendment, as thus amended, adopted.

On motion of Mr. Bennett, for Mr. Rhodes:—

Resolved: That subsection (19) of section eighty-eight of Bill 18 be amended by deleting the words "on and" in the fourth line of the said subsection.

Carried.

Section 88, as amended, adopted.

Section 166 further considered.

Consideration of amendment thereto, proposed by Mr. Willis, on May 8th, last, viz:—

> That subsection (1) of section one hundred and sixty-six of Bill 18 be deleted and the following substituted therefor:—
>
> "166. (1) Every person using the word 'bank', 'banker', or 'banking', or the words 'investment banker', 'savings bank', 'banking company', 'banking house', 'banking association', or 'banking institution', either alone or in combination with other words, or any word or words of import equivalent to any of the foregoing in any foreign language, in a sign or in an advertisement or to describe his business or any part of his business, without being authorized so to do by this Act, or by some other Act of the Parliament of Canada, is guilty of an offence against this Act."

Mr. Ward C. Pitfield, Montreal, Quebec, President, The Canadian Investment Bankers' Association, was called, made a statement and was examined thereon.

On motion of Mr. Coote:—

Ordered: That the witness prepare for and file with the Committee a list of the members of The Canadian Investment Bankers' Association.

During the examination of the witness, by Mr. Coote, Mr. Ernst raised a point of order: It is not competent, in the examination of this witness, to go beyond the scope of the proposed amendment to section 166 and elicit from the witness details of investment banking operations.

The Vice-Chairman ruled that the point of order was well taken.

Mr. Coote appealed from the ruling of the Chair.

On a recorded vote, 9 to 6, this ruling of the Chair was not sustained. Yeas: Messieurs Baker, Ernst, Fraser (*Cariboo*), Smoke, Stanley, White (*Mount Royal*), 6; Nays: Messieurs Bothwell, Chaplin, Coote, Howard, Irvine, Power, Robinson, Sanderson, Spencer, 9.

The Committee took recess at 1 p.m.

AFTERNOON SESSION

The Committee re-convened at 4.30 p.m.

Examination continued of Mr. Ward C. Pitfield.

Witness discharged.

Consideration resumed of the proposed amendment to section 166.

On motion of Mr. Geary:—

Resolved: That the amendment be amended by deleting therefrom the words: "or the words 'investment banker', 'savings bank', 'banking company', 'banking house', 'banking association', or 'banking institution', either alone or in combination with other words".

After it was suggested by the Right Honourable the Prime Minister that progress might be expedited if the amendment of this section were to remain in abeyance until the section is considered by the Committee of the Whole, the amendments of Mr. Geary and Mr. Willis, were, by leave, withdrawn.

Section 166 adopted.

Section 113 further considered.

Consideration of amendment thereto proposed on behalf of Mr. Rhodes, on May 8th last, viz:—

> 113 (2). That section one hundred and thirteen of Bill 18 be reconsidered and be amended by striking out subsection (2) and substituting therefor the following:—
>
> "(2). *The bank shall within thirty days* after the annual general meeting *transmit or deliver* to the Minister *a return showing* the name and address of each director elected thereat *together with a list of the*

> *banks, firms and companies of which he is a director or partner,* and the names of the president and vice-presidents; and should any vacancy occur in the membership of the board of directors or in the office of president or vice-president, the *bank* shall forthwith *notify the Minister* of the name *and address* of the person by whom the vacancy has been filled *together with a list of the banks, firms and companies of which he is a director or partner."*

On motion of Mr. Bennett, for Mr. Rhodes:—

Resolved: That this proposed amendment be amended by deleting the word "and" after the word "firms" in the third line of the proposed amendment and inserting the words "and corporations" after the word "companies" in the fourth line thereof and by deleting the word "and" after the word "firms" in the eighth line of the said proposed amendment and inserting after the word "companies" in the same line the words "and corporations".

Amendment, as thus amended, adopted.

Section 113, as amended, adopted.

On motion of Mr. Coote, section 114, was, by leave, reconsidered.

Amendment to section one hundred and fourteen, proposed by Mr. Irvine on March 8th, last, and adopted on May 8th, last, being now unnecessary, in view of the above amendment to section 113, was, by leave, withdrawn.

The following amendment to section 114, proposed by Mr. Coote, was accepted as a notice of motion and, by leave, considered forthwith:—

> That the following be inserted as subsection (11) of section one hundred and fourteen of Bill 18:—
>
> (11) The bank shall once in each year transmit or deliver to the Minister a return of all deposits held by the bank in Canada at a date to be specified by the Treasury Board, classified according to amount and showing whether such deposits are payable on demand or after notice. The return shall also show the number and aggregate amount of deposits in each of the following classes:—
>
> 1. Deposits under $1,000.
> 2. Deposits over $1,000 to $5,000.
> 3. Deposits over $5,000 to $25,000.
> 4. Deposits over $25,000 to $100,000.
> 5. Deposits in excess of $100,000.

Amendment adopted.

Section 114, as thus amended, adopted.

Section 151 considered.

The following amendment thereto, proposed on behalf of Mr. Rhodes, was, by leave, considered forthwith:—

> That section one hundred and fifty-one of Bill No. 18 be struck out and the following substituted therefor:—
>
> 151. (1) If any bank, except as authorized by this Act, either directly or indirectly,—
>
> (*a*) deals in the buying or selling or bartering of goods, wares and merchandise, or engages or is engaged in any trade or business whatsoever;

(*b*) purchases, deals in, or lends money or makes advances upon the security or pledge of any share of its own capital stock, or of the capital stock of any bank *or of the Bank of Canada;*

(*c*) lends money or makes advances upon the security, mortgage or hypothecation of any lands, tenements or immovable property, or of any ships or other vessels or upon the security of any goods, wares and merchandise;

(*d*) lends to or on the security of the general manager, assistant general manager, branch manager, or any officer, clerk or servant of the bank without the approval of the directors any amount or amounts exceeding in the aggregate one thousand dollars; or

(*e*) lends to or on the security of the general manager, assistant general manager, branch manager, or any officer, clerk or servant of the bank any amount or amounts exceeding in the aggregate ten thousand dollars;

such bank shall incur a penalty not exceeding five hundred dollars.

(2) If any bank, either directly or indirectly lends money or makes advances in excess of five per centum of its paid-up capital to a director of the bank or to any company or corporation in which the president, general manager or a director of the bank is a partner or shareholder, as the case may be, without the approval of two-thirds of the directors present at a regular meeting, or a meeting specially called for the purpose, of the board, such bank shall incur a penalty not exceeding *five thousand dollars.*

(3) *If any director of a bank is present or votes at a meeting of the board during the time when loans or advances to himself or any firm or corporation of which he is a partner or director are under consideration both the bank and such director shall incur penalties not exceeding five thousand dollars, and such director shall forthwith vacate his office of director and shall not be eligible for election as a director of a bank within a period of five years after the date of the said meeting of the board.*

(4) (*a*) *Any manager or other officer of a bank who acts as agent for any insurance company or for any person in the placing of insurance shall incur a penalty not exceeding five hundred dollars;*

(*b*) *Any bank which exercises pressure upon any borrower to place insurance for the security of such bank in any particular insurance agency shall incur for each such offence a penalty not exceeding five hundred dollars.*

On motion of Mr. Bennett, for Mr. Rhodes:

Resolved: That subsection (2) of the proposed new section 151 be amended by inserting after the word " any " in the third line thereof, the word "firm."

Adopted;

Resolved: That subsection (3) of the proposed section one hundred and fifty-one be amended by inserting after the word " firm " in the third line of the said subsection, the word " company."

Adopted;

Resolved: That paragraph (*a*) of subsection (4) of the proposed section one hundred and fifty-one be amended by deleting the word " offic'al " in the first line of the said paragraph and substituting therefor the word " officer."

Adopted.

Section 151, as thus amended, adopted.

Section 160 considered.

Consideration of amendment thereto proposed on behalf of Mr. Rhodes, on May 8th last, viz.:—

> That section one hundred and sixty of Bill 18 be amended by adding thereto the following as subsection (3):—
>
> "(3) Every bank which neglects to transmit or deliver within thirty days after the annual general meeting a return showing the name and address of each director elected thereat, together wtih a list of the banks, firms and companies of which he is a director or partner, or which neglects to transmit or deliver within thirty days after the selection of a person to fill a vacancy in the membership of the board of directors or in the office of president or vice-president, a similar return respecting such person, shall incur a penalty of fifty dollars for each and every day during which such neglect continues."

On motion of Mr. Bennett, for Mr. Rhodes:

Resolved: That the proposed amendment be amended by deleting the word "and" and by inserting the words "and corporations" after the word "companies" in the fourth line thereof.

Adopted.

Amendment, as thus amended, adopted.

Section 160, as amended, adopted.

On motion of Mr. Ralston, section 125, was, by leave, reconsidered.

Mr. Ralston pointed out that the explanatory note opposite subsection (2) of section 125 reads as follows: "This subsection provides for a reduction in the double liability of shareholders in proportion to the withdrawal of the right of note issue under section 61" is liable to lead to a misconception of the true extent of the double liability of shareholders.

After a statement by the Right Honourable the Prime Minister and by Mr. Henry T. Ross, Secretary, The Canadian Bankers' Association, it was, on motion of Mr. Bennett, for Mr. Rhodes:

Resolved: That section one hundred and twenty-five of Bill 18 be amended as follows:

> By deleting from subsection (2) of the said section the following words "plus the amount of the notes of the bank issued and in circulation elsewhere than in Canada.

It was agreed to accept this as a notice of motion for consideration at the next meeting of the Committee.

Section 125 stands for further consideration.

Section 29 further considered.

The following amendment thereto, proposed by Mr. Morand, was received as a notice of motion and by leave, considered forthwith:

> That section twenty-nine of Bill 18 be amended by inserting the following therein as subsection (2*a*):
>
> (2*a*) The Directors of the Bank shall file, as part of the Bank's Annual Statement, with the Finance Minister, under the following classification,—
>
> 1. Managers
> 2. Assistant Managers
> 3. Accountants

4. Assistant Accountants
5. Ledger Keepers
6. Tellers
7. Women Clerks and Stenographers
8. Juniors and other Clerks

the following information;—

(*a*) The number in each classification, with maximum, minimum and average salary and other compensation of each class.

(*b*) The maximum, minimum and average age of employees under each classification.

(*c*) Age or salary restriction, upon marriage, of its employees.

(*d*) Percentage of employees' salaries contributed to Pension Fund, if any, and the additions made under such Fund by the Bank.

Amendment adopted.

Section 29, as amended, adopted, on division.

Sections 125 and 136 stand for further consideration at the next meeting of the Committee. Schedules F, G, H, I, J to be considered at the same meeting.

The matter of the examination of Sir Herbert Holt, K.B., Mr. J. H. Gundy, *et al.*, in connection with the financing of pulp and paper companies, was again broached by Mr. Power. When the Right Honourable the Prime Minister pointed out that it was most unusual for a select committee to hold meetings outside Ottawa, during the time whilst Parliament is sitting; it was felt that the matter should stand over for further consideration at the next sitting of the Committee.

The Committee adjourned to meet on Thursday, May 17th, next, at 10 a.m.

HOUSE OF COMMONS,

THURSDAY, May 17, 1934.

The Select Standing Committee on Banking and Commerce met this day at 10 a.m.

Mr. R. B. Hanson in the Chair.

The Right Honourable the Prime Minister (Mr. Bennett) represented the Government *vice* the Honourable the Minister of Finance (Mr. Rhodes).

Members present: Messieurs Arthurs, Baker, Beynon, Bothwell, Bowman, Casgrain, Chaplin, Coote, Donnelly, Dorion, Duff, Ernst, Euler, Fraser (*Cariboo*), Gagnon, Geary, Hackett, Hanson (*York-Sunbury*), Harris, Howard, Hurtubise, Irvine, Jacobs, Lapointe, Mackenzie (*Vancouver Centre*), *MacMillan* (*Saskatoon*), McGibbon, McPhee, Michaud, Morand, Perley (*Qu'Appelle*), Power, Raymond, Robinson, Sanderson, Smith (*Cumberland*), Smoke, Spencer, Stanley, White (*Mount Royal*), Willis—41.

Consideration resumed of Bill No. 18, An Act respecting Banks and Banking.

On motion of Mr. Geary, and by leave, section 55 was reconsidered and discussion followed as to the advisability of amending subsection (1) of the said section as follows: "by adding the words 'or under the authority of the Parliament of Canada' after the word 'Canada' in the concluding line of the said subsection".

The Deputy Minister of Finance and the Inspector General of Banks were heard.

The suggested amendment was dropped.

Section 75 further considered.

Paragraph (*f*) of subsection (2) of the said section was amended by inserting the word "firm" before the word "company" in the third line of the said paragraph.

The said section was further amended by inserting the word "company" after the word "firm" in the third line of subsection (3) of the said section.

Section 75, as thus further amended, adopted.

Section 125 further considered.

Consideration of the amendment to subsection (2) of the said section, proposed by Mr. Bennett, for Mr. Rhodes, on May 15th, last, viz: "That all the words after 'Canada', in the seventh line of the said subsection, down to and including the word 'Canada', in the ninth line of the said subsection, be struck out."

Amendment adopted.

Section 125, as thus amended, adopted.

Section 136 adopted.

On motion of Mr. Morand, and by leave, section 29 was reconsidered.

Amendment to said section, proposed by Mr. Morand, on May 15th, last, was, by leave, withdrawn.

On motion of Mr. Morand, and by leave, section 53 was reconsidered.

The following amendment to the said section, proposed by Mr. Morand, was accepted as a notice of motion and, by leave, considered forthwith, viz:—

> That the following be added to section 53 of Bill No. 18 as subsection (10):—
>
> (10) As a part of the bank's annual statement, there shall be filed with the Minister, under the following classification:—
>
> 1. Managers;
> 2. Assistant Managers;
> 3. Accountants;
> 4. Assistant Accountants;
> 5. Tellers;
> 6. Ledger Keepers;
> 7. Women Clerks and Stenographers;
> 8. Juniors and other Clerks,
>
> the following information;
>
> (*a*) The number in each classification, with maximum, minimum and average salary and other compensation for each class;
>
> (*b*) The maximum, minimum and average age of employees under each classification;
>
> (*c*) Age or salary restrictions upon marriage of employees; and
>
> (*d*) Percentage of employees' salaries contributed to Pension Fund, if any, and the contributions made to such Fund by the bank.

Amendment adopted.

On motion of Mr. Coote:—

Resolved: That this amendment be amended by inserting therein, after the word " information ", the words " in regard to employees within Canada ".

Adopted.

Amendment, as amended, adopted.

Section 53, as thus amended, adopted.

On motion of Mr. Coote, and by leave, section 91 was reconsidered.

On motion of Mr. Coote:—

Resolved: That subsection (1) of section 91 be amended by adding, after the word " dollar ", in the last line of the said subsection, the words:—

> Provided further that when the advance or loan is not in excess of twenty-five dollars, and the interest or discount thereon amounts to less than fifty cents, the maximum charge shall not exceed fifty cents.

Adopted.

Section 91, as thus amended, adopted.

Schedule F (*re* s. 88 (14)) considered.

Amendment, proposed by Mr. Coote, was accepted as notice of motion and, by leave, considered forthwith:—

> That the following paragraph be inserted in Schedule F (formerly Schedule E):—
>
> > The said live stock are now owned by me and are now in my possession and are free from any mortgage, lien or charge thereon and have been fully paid for by me.

After discussion thereon, the amendment was, by leave, withdrawn.

Schedule F adopted.

Schedule G (under s. 88 (17)) adopted.

Schedule H (as required by ss. 112, 113) considered.

Consideration of amendment thereto, proposed by Mr. Spencer, on March 13th, last, viz:—

> That Schedule G, a return prescribed to be transmitted or delivered by the bank to the Minister, under the provisions of section one hundred and twelve of Bill 18, be amended by striking out item 25, under the heading of "assets" therein, relating to bank premises, and substituting the following therefor:—
>
> > 25. Bank premises, at actual, or original cost; giving particulars as to encumbrances thereon, including amounts borrowed from controlled corporations; the total written off for depreciation; losses of the bank charged to this account (if any); and the particular reserves, funds or contingencies of the bank, to which these expenditures are charged in returns to the Minister.

The Inspector General of Banks (Mr. C. S. Tompkins) made the following statement:—

> Encumbrances on bank premises (i.e. properties represented by item 25 of Assets in the monthly return) are inconsequential, aggregating only a few thousand dollars for all banks, and consist of charges which, for one reason or another, cannot readily be disposed of. Banks have long been required to make an annual return to the Minister, under section 78 of the Act, in which all essential information is given as provided in that section.
>
> Banks do not borrow from their controlled corporations; on the contrary, controlled corporations sometimes borrow from the banks, such advances by the banks being included in the Assets (Item No. 27 in the Government Return "Shares of and loans to controlled companies"). Separate balance sheets of these controlled companies are, as required by the Act, submitted to the Minister monthly and are published regularly with the annual financial statements of the respective banks. Several realty (controlled) companies of the banks were organized for the purpose of acquiring certain properties occupied by the banks or of erecting buildings thereon, the necessary financing being done by the flotation of bond issues which are amortized annually out of rentals paid by the banks or other tenants to the companies. The banks do not guarantee these bond issues.
>
> The annual allowance, or write-offs, for depreciation, are not uniform with all banks, as various conditions are not similar. There are sometimes inside write-offs on account of furniture, fixtures, etc., in addition to amounts publicly shown as provision for bank premises in the annual statements. The practice followed by individual banks is the subject of scrutiny, by the Inspector General of Banks, periodically.
>
> Losses are not charged in this account other than losses incurred in respect of the asset itself.
>
> I do not quite understand what Mr. Spencer means by the last sentence of his proposal, but if it involves in any way the disclosure of internal reserve or contingent accounts of the banks, I would consider it objectionable for the same reasons that I have already given to the Committee against any public disclosure of such accounts or of the amounts transferred to or from the same from year to year.

The following portion of Mr. Spencer's amendment was, by leave, withdrawn: "and the particular reserves, funds or contingencies of the bank, to which these expenditures are charged in returns to the Minister."

Motion to amend lost.

On motion of Mr. Coote:—

Resolved: That the following be inserted in Schedule H (formerly G) as additional information to be supplied in the said schedule: "Average rate of interest paid on deposits————; Average rate of interest charged on loans or advances————."

Motion lost.

Schedule H adopted.

The Chairman took this opportunity to notify the Committee that he had received from G. G. McGeer, Esq., K.C., M.L.A., a letter in which it was submitted " that the Canadian bankers be ordered to make public the information attached." The Chairman stated that some of the desired information is already a matter of return to the Government. The following portion of the letter was read to the Committee:—

> (Information which the Banking Committee should secure from the Banks.) 3. A statement showing the total amount of interest bearing securities held by each director of Canadian banking corporations segregated as follows:—
>
> The Amount of the following securities held by each Canadian Bank director:—
>
> (*a*) Dominion Government bonds;
> (*b*) Provincial Government bonds;
> (*c*) Municipal and other Government bonds;
> (*d*) Bonds of Canadian corporations specifying the amount and the name of the corporation and the price at which the same were acquired;
> (*e*) Preferred stocks and other preferred securities, showing the actual cost and name of the corporation involved;
> (*f*) Similar information with regard to common stocks.

Schedule I (under s. 60 (20)), adopted.

Schedule J (*re* s. 114 (5)), adopted.

Title adopted.

Mr. Hackett moves that Bill No. 18, An Act respecting Banks and Banking be reported with amendments.

Mr. Mackenzie (*Vancouver Centre*) moves, seconded by Mr. Power,—

> That this Committee recommends to the House that during the next session of Parliament a further investigation of the question of National Credit be made by the Select Standing Committee on Banking and Commerce appointed for the session of 1935.

Discussion followed.

The Chairman pointed out that it was not his intention to rule out this latter motion on technical grounds, such recommendations having, on occasion, been accepted by Committees. Parliamentary procedure, however, favours the use of a special report, rather than the addition, as a rider to the Report of a Bill, of a recommendation such as that proposed. As the motion deals with National Credit and since the Committee will shortly consider Bill No. 19, the preamble of which reads, *inter alia*, "Whereas it is desirable to establish a central bank in Canada to regulate credit . . . . in the best interests of the economic life of the nation . . . ., it was suggested that the mover should not press his motion.

The motion was, by leave, withdrawn, without prejudice to the right of the mover to offer the identical or a similar motion at a later stage.

It was then agreed to report the Bill with amendments.

It was agreed that the reporting of the Bill would not preclude further investigation of that portion of the motion presented by Mr. Power, on March 6th, last, which deals with the relations of the chartered banks to the pulp and paper industry.

Accordingly it was agreed that at the next sitting of the Committee the following should give evidence: Messrs. J. H. Gundy, of Toronto; Geo. M. McKee, C. R. Whitehead, Geo. Chahoon, Jr., John Stadler, Sr., all of Montreal.

Should the Committee decide, after hearing these witnesses on Tuesday next, that evidence in addition should be had from Sir Herbert Holt, K.B., or any other witness, it will be recommended that a subcommittee, with requisite assistants, proceed to Montreal for the purpose of taking such evidence.

Motion, proposed by Mr. Coote, that the Committee appoint counsel to assist in the examination of these witnesses called for next Tuesday was lost, on division.

The names being called for, they were recorded as follows:—

YEAS: Messieurs Bothwell, Casgrain, Coote, Euler, Gagnon, Howard, Hurtubise, Irvine, Mackenzie (*Vancouver Centre*), Power, Raymond, and Spencer—12.

NAYS: Messieurs Baker, Beynon, Chaplin, Duff, Fraser (*Cariboo*), Hackett, MacMillan (*Saskatoon*), McGibbon, Robinson, Smith (*Cumberland*), Smoke, Stanley, White (*Mount Royal*)—13.

The motion was again declared lost.

(Resuming consideration of a Private Bill on the Order Paper of the Committee.)

Consideration resumed of Bill No. 19, An Act to incorporate the Bank of Canada.

The following, proposed by Mr. Spencer, was accepted as a notice of motion,—

> That the preamble of Bill 19 be amended by inserting the words "to make use of the national credit at cost for governmental services and" after the word "Canada" in the second line of the said preamble.

The Committee took recess at 1 p.m.

AFTERNOON SESSION

The Committee re-convened at 4 p.m.

The Chairman made a statement with reference to a matter which had been under lengthy and studied investigation by the subcommittee which had decided that the complaint submitted was one with which the Courts and not this Committee should be asked to deal. The Chairman informed the Committee that the whole *dossier* was open for examination by members of the Committee.

Consideration continued of Bill No. 19.

Consideration of motion presented by Mr. Mackenzie (*Vancouver Centre*), on March 15, viz.,—

> That before proceeding with the discussion, clause by clause, of Bill No. 19, An Act to incorporate the Bank of Canada, the Select Standing Committee on Banking and Commerce is of opinion that the proposed Bank of Canada should be owned and controlled by the Dominion of Canada and that the provisions of the said Bill should be altered accordingly.

At the close of the discussion which followed, the Right Honourable the Prime Minister (Mr. Bennett) made a statement.

The motion was declared lost.

The names being called for, they were taken down as follows:—

YEAS: Messieurs Bothwell, Casgrain, Coote, Donnelly, Duff, Euler, Howard, Lapointe, Mackenzie (*Vancouver Centre*), Power, Raymond, Sanderson, and Spencer—13.

NAYS: Messieurs Arthurs, Baker, Beynon, Bowman, Ernst, Fraser (*Cariboo*), Hackett, MacMillan (*Saskatoon*), McGibbon, Perley (*Qu'Appelle*), Smith (*Cumberland*), Smoke, White (*Mount Royal*), Willis—15.

The motion was again declared passed in the negative.

Consideration of motion proposed by Mr. Coote, on March 15th, last, viz:—

> That, in the opinion of this Committee, the ownership of the shares of the proposed Bank of Canada should be vested in the Government of the Dominion of Canada.

Motion lost on division.

Sections 2, 3, 4, 5 and subsection (1) of section 6 adopted.

Consideration of amendment, proposed by Mr. Raymond, on March 20th, last, viz:—

> That section six of Bill 19 be amended by striking out paragraph (*a*) of subsection (2) of the said section and substituting therefor the following:—
>
> (*a*) is not a Canadian national; or

Motion to amend declared lost.

The names being called for, they were recorded as follows:—

YEAS: Messieurs Bothwell, Casgrain, Coote, Donnelly, Howard, Lapointe, Mackenzie (*Vancouver Centre*), Power, Raymond, Sanderson and Spencer—11.

NAYS: Arthurs, Baker, Beynon, Bowman, Chaplin, Dorion, Fraser (*Cariboo*), Hackett, Irvine, McMillan (*Saskatoon*), McGibbon, Perley (*Qu'Appelle*), Smith (*Cumberland*), Smoke, Stanley, White (*Mount Royal*), Willis—17.

The motion was again declared passed in the negative.

The Committee adjourned to meet on Tuesday, May 22, next, at 10 a.m.

HOUSE OF COMMONS,
TUESDAY, May 22, 1934.

The Select Standing Committee on Banking and Commerce met this day at 10 a.m.

Mr. R. B. Hanson in the Chair.

Members present: Messieurs Arthurs, Baker, Beynon, Bothwell, Bowman, Casgrain, Chaplin, Coote, Donnelly, Dorion, Duff, Ernst, Euler, Fraser (*Cariboo*), Fraser (*Northumberland, O.*), Gagnon, Geary, Hackett, Hanson (*York-Sunbury*), Harris, Howard, Hurtubise, Irvine, Jacobs, Lawson, Mackenzie (*Vancouver Centre*), McPhee, Mercier (*St. Henri*), Michaud, Morand, Perley (*Qu'Appelle*), Power, Raymond, Rhodes, Robinson, Sanderson, Smith (*Cumberland*), Smoke, Spencer, Stanley, Vallance, White (*London*), White (*Mount Royal*), Willis—43.

Consideration of the unfinished portion of motion proposed by Mr. Power on March 6th, last, viz:—

> 6. The relationship between the banks or any of them and the pulp and paper industry, and the extent to which uncontrolled extension of credit brought about overcapitalization and over-expansion, and the subsequent disorganization and near bankruptcy of an industry dealing in some of the most valuable of our natural resources.

The Chairman informed the Committee that a questionnaire had, for the purpose of expediting the examination, been sent to Sir Herbert S. Holt, K.B., in order to indicate the matters about which the witness might be questioned.

Mr. J. H. Gundy, of Toronto, Ontario, was called, and was examined.

The Committee took recess at 1 p.m.

AFTERNOON SESSION

The Committee re-convened at 4 p.m.

Examination continued of Mr. J. H. Gundy.

Witness filed:—

Exhibit 47: Chart showing Canadian capacity production of newsprint, 1925-1934 and United States imports of newsprint for same period. (See Appendix AF.)

Exhibit 48: Letter from J. H. Gundy to Chairman of Select Standing Committee on Banking and Commerce *re* newsprint industry. (Printed as Appendix AG.)

Exhibit 49: Chart showing (*a*) index of pulp and paper common stock prices; (*b*) index of industrial common stock prices, both adjusted to base: October, 1929=100. (Printed as Appendix AH.)

Witness discharged.

Mr. George Chahoon, Jr., of Three Rivers and Montreal, Quebec, was called and was questioned.

Witness filed:—

Exhibit 50: Letter, dated January 11, 1928, addressed to shareholders of Laurentide Company Limited signed by G. Chahoon, Jr., President of said Company. (Printed in minutes of evidence.)

Exhibit 51: Third Annual Report, dated February 27, 1931, of Canada Power and Paper Corporation, showing consolidated balance sheet as at December 31, 1930. (Printed in minutes of evidence.)

Exhibit 52: First Annual Report, dated March 12, 1929, of Canada Power and Paper Corporation, showing consolidated balance sheet as of December 31, 1928. (Printed in minutes of evidence.)

Exhibit 53: Fifth Annual Report, dated March 12, 1929, of Port Alfred Pulp and Paper Corporation, showing balance sheet as at December 31, 1928. (Printed in minutes of evidence.)

Exhibit 54: Report of Wayagamack Pulp and Paper Company, Limited, showing balance sheet as of November 30, 1928. (Printed in minutes of evidence.)

Exhibit 55: Second Annual Report, dated February 21, 1928, of St. Maurice Valley Corporation, showing consolidated balance sheet, December 31, 1927. (Printed in Minutes of Evidence.)

Exhibit 56: Annual Report, for the year ending June 30, 1927, of Laurentide Company, Limited, containing balance sheet as of same date. (Printed in Minutes of Evidence.)

Exhibit 57: Annual Report for period ending December 31, 1924, of Belgo Canadian Paper Company, Limited. (Printed in Minutes of Evidence.)

Exhibit 58: (*a*) Letters from General Manager, Montreal Trust Company, dated October 7, 1929, and (*b*) dated September 26, 1929, to holders of common shares of Port Alfred Pulp and Paper Corporation; (*c*) form of shareholders' letter; (*d*) letter from President of Port Alfred Pulp and Paper Corporation, dated September 24, 1929, to holders of common shares of said corporation. (Printed in Minutes of Evidence.)

Exhibit 59: (*a*) Letters from General Manager, Montreal Trust Company, dated October 7, 1929, and (*b*) dated September 26, 1929, to holders of common shares of Wayagamack Pulp and Paper Company, Limited; (*c*) form of shareholders' letter; (*d*) letter, dated September 24, 1929, from President of said company to shareholders of same. (Printed in Minutes of Evidence.)

Exhibit 60: (*a*) Letter from Assistant General Manager, Royal Trust Company, dated January 17, 1928, to holders of common shares of St. Maurice Valley Corporation; (*b*) form of shareholders' letter; (*c*) letter from President of St. Maurice Valley Corporation, dated January 11, 1928, to said shareholders. (Printed in Minutes of Evidence.)

Exhibit 61: Prospectus, dated August 6, 1926, offering \$3,000,000 7 per cent Sinking Fund Cumulative Preference Shares of The Anticosti Corporation. (Printed in Minutes of Evidence.)

Witness retired.

The Committee took recess at 6 p.m.

EVENING SESSION

The committee re-convened at 8 p.m.

Mr. George M. McKee, Montreal, Quebec, Assistant to President (i/c Operations), Consolidated Paper Corporation, was called and was examined.

Witness retired.

Mr. C. R. Whitehead, Montreal, Quebec, Assistant to President (i/c General Business), Consolidated Paper Corporation, was called and was examined.

Witness filed:—

Exhibit 62: Statement *re* Newsprint Daily Tonnage Capacities. (Printed as Appendix AI.)

Exhibit 63: Diagram showing present and future consumption of newsprint in the United States, dated December 24, 1924. (Printed as Appendix AJ.)

Witness discharged.

Mr. George M. McKee recalled.

Witness discharged.

Mr. George Chahoon, Jr., recalled.

Witness discharged.

It was agreed that a sub-committee composed of Messrs. Coote, Hanson, Hackett, Lawson and Power, with requisite assistants, should proceed to Montreal, to-morrow, Wednesday, May 23, for the purpose of hearing evidence of Sir Herbert S. Holt, K.B., in connection with this matter, and that such evidence be printed as part of the day to day proceedings of the committee.

The committee adjourned to meet on Tuesday, May 29, next, to resume consideration of Bill 19, An Act to incorporate The Bank of Canada, and Bill 33, An Act to amend the Quebec Savings Banks Act.

POWER BUILDING, CRAIG STREET,
MONTREAL, QUEBEC,
WEDNESDAY, May 23, 1934.

The sub-committee appointed for the purpose of hearing evidence of Sir Herbert S. Holt, K.B., met at the above address at 11 a.m. this day.

Mr. R. B. Hanson in the Chair.

Members present: Messieurs Coote, Hanson, Morand (for Mr. Lawson) and Power—4.

Sir Herbert S. Holt, K.B., President, Royal Bank of Canada, was called and was questioned.

Mr. M. W. Wilson, General Manager, Royal Bank of Canada, was called.

On motion of Mr. Power,—

Ordered, That the witness produce and file with this sub-committee the most recent balance sheet of The Montreal Trust Company and that this exhibit be printed in the record.

On motion of Mr. Power,—

Ordered, That the following information, covering the years 1926-1929, both inclusive, be filed with the committee; aggregate amount of indebtedness to Royal Bank of Canada of concerns of which Sir Herbert Holt is a director.

Mr. Wilson filed:—

Exhibit 64: Balance sheet of Montreal Trust Company, as of December 31, 1933. (Printed as Appendix AK.)

Exhibit 65: (Filed on behalf of Mr. S. H. Logan, Vice-President, The Canadian Bankers' Association) Statement concerning connection of chartered banks and pulp and paper industry. (Printed as Appendix AL.)

Witnesses discharged.

The sub-committee adjourned at 1.45 p.m.

HOUSE OF COMMONS,

TUESDAY, May 29, 1934.

The Select Standing Committee on Banking and Commerce met this day at 11 a.m.

Mr. R. B. Hanson in the Chair.

Members present: Messieurs Baker, Beynon, Bothwell, Bowman, Chaplin, Coote, Donnelly, Dorion, Euler, Fraser (*Cariboo*), Gagnon, Geary, Hackett, Hanson (*York-Sunbury*), Howard, Irvine, Jacobs, Lapointe, Mackenzie (*Vancouver Centre*), McPhee, Mercier (*St. Henri*), Michaud, Morand, Perley (*Qu'Appelle*), Power, Ralston, Raymond, Rhodes, Robinson, Sanderson, Smoke, Spencer, Stanley, Sullivan, White (*London*), White (*Mount Royal*), Willis—37.

There were filed with the Committee the following:—

Exhibit 66.—Letter from Sir Herbert S. Holt, K.B., addressed to the Secretary of the Committee, Return to an Order of the subcommittee, dated May 23, 1934, aggregate amount of advances, as at December 1, 1926, 1927, 1928, 1929, December 31, 1933, by Royal Bank of Canada to corporations, institutions or partnerships of which Sir H. S. Holt was a director or officer. (Printed as Appendix AM.)

Letter from W. T. Lucas, Esq., M.P. (*Camrose*), forwarding submission on "Social Credit" by W. H. Collier, Esq., of Vulcan, Alberta, for consideration by Committee;

Also, letter from H. H. Hallatt, Esq., Windsor, Ontario, enclosing booklet "The Wage Dollar Money System," asking for a hearing by the Committee.

It was agreed that it would be impossible to give hearings to these last two applicants, as that branch of the inquiry is now closed. The letters were filed and are at the disposal of members of the Committee.

Consideration resumed of Bill No. 19, An Act to incorporate the Bank of Canada.

The following proposed amendments to the said Bill were accepted as notices of motion:—

Proposed by Mr. Rhodes:—

> That subsection (1) of section seven of Bill 19 be amended by striking out the words at the end of the subsection: "or at a meeting of shareholders" and substituting therefor the words "or *by the Executive* or *by* a meeting of shareholders".

Proposed by Mr. Coote:—

> That section nine of Bill 19 be amended by providing that the Minister of Finance should be *ex-officio* a Director of the Bank.

Proposed by Mr. Ralston:—

That section ten of Bill 19 be amended by striking out the word "Board" in the first line of subsection (4) of the said section and substituting therefor the word "Governor" and by striking out the words "by resolution of the Board approved" in the third line of the said subsection.

Proposed by Mr. Rhodes:—

That section twelve of Bill 19 be struck out and the following substituted:—

12. The *members of the Board* shall select a chairman of the Board from amongst their number.

Proposed by Mr. Rhodes:—

That subsection (1) of section thirteen of Bill 19 be amended by striking out the words "acting by direction of the Board" at the end of the said subsection and substituting therefor the words "*selected* by the Board".

Proposed by Mr. Rhodes:—

That subsection (3) of section thirteen of Bill 19 be struck out and the following substituted therefor:—

3. *Except when the Board is in session* the Executive Committee shall determine the minimum rates at which the Bank is prepared to discount or rediscount bills or to make advances and *the Bank* shall at all times make public *the* rates *at which it is prepared to discount or rediscount bills or to make advances.*

Proposed by Mr. Coote:—

That subsection (1) of section sixteen of Bill 19 be amended by striking out the words " Governor in Council " and substituting therefor the words " Parliament of Canada ".

Proposed by Mr. Coote:—

That subsection (4) of section sixteen of Bill 19 be amended by striking out the word " Board " where it occurs in the fourth line of the said subsection and substituting therefor the word " Minister ".

Proposed by Mr. Rhodes:—

That subsection (1) paragraph (*b*) of section 20 of Bill 19 be amended to read as follows:—

(*b*) effect transfers of funds by telegram, letter or other method of communication, and buy and sell *transfers effected by such means,* trade acceptances, *bankers' drafts,* and bills of exchange drawn in or on places outside of Canada and having a maturity *not exceeding ninety days excluding days of grace, or not exceeding ninety days after sight excluding days of grace,* from the date of acquisition by the Bank;

Proposed by Mr. Coote:—

That paragraph (*d*) of subsection (1) of section twenty of Bill 19 be amended by striking out all the words after the word " Bank " where it first occurs in the third line of the said paragraph.

Proposed by Mr. Rhodes:—

That paragraph (*g*) of subsection (1) of section twenty of Bill 19 be amended to read as follows:—

(*g*) buy and sell or rediscount bills of exchange and promissory notes endorsed by a chartered bank drawn or issued in connection with

the production and marketing of goods, wares and merchandise as defined in *The Bank Act*, excepting those mentioned in paragraph (*h*) of this subsection, and having a maturity not exceeding *ninety days excluding days of grace, or not exceeding ninety days after sight excluding days of grace*, from date of acquisition by the Bank;

Proposed by Mr. Coote:—

That paragraph (*b*) of section twenty-one be amended by striking out the words "except the Bank for International Settlements".

Proposed by Mr. Irvine:—

That section twenty-four of Bill 19 be amended by striking out subsections (1) and (2) of the said section.

Proposed by Mr. Spencer:—

That section twenty-five of Bill 19 be amended by striking out all the words after the word "Bank" where it occurs in the second line of paragraph (*a*) of subsection (2) of the said subsection.

Section 6 further considered.

Paragraphs (*a*), (*b*) and (*c*) of subsection (2) adopted.

Consideration of amendment proposed by Mr. Raymond on March 20, last, viz:—

That section six of Bill 19 be amended by adding to paragraph (*d*) of subsection (2) of the said section, after the word "Canada" at the end of the paragraph, the following words: "Or elsewhere".

Motion stands, on the understanding that paragraph (*d*) will be redrafted by Departmental officials.

Sections 7, 8 and 9 stand for further consideration.

Section 10 considered.

It was suggested by Mr. Ralston, and agreed, that subsection (1) should be redrafted; at present it is not quite clear that *all* directors shall hold a minimum of ten shares of the capital stock of the Bank.

The following amendment was accepted as a notice of motion and was, by leave, considered forthwith:—

Proposed by Mr. White (*Mount Royal*):—

That the following words be deleted from subsection (2) of section ten of Bill 19: "The directors shall be selected from diversified occupations, but".

Motion to amend declared lost.

The names being called for, they were taken down as follows:—

Yeas: Messieurs Fraser (*Cariboo*), Hackett, Robinson, Smoke, White (*London*), White (*Mount Royal*)—6.

Nays: Messieurs Chaplin, Coote, Dorion, Irvine, Michaud, Ralston, Raymond, Stanley—8.

The motion to amend was again declared passed in the negative.

Subsection (2) adopted.

Consideration of amendment proposed by Mr. Raymond on March 20, last, viz:—

That section ten of Bill 19 be amended by striking out paragraph (*a*) of subsection (3) of the said section and substituting therefor the following:—

(*a*) is not a Canadian national; or."

Motion to amend declared lost.

The names being called for, they were recorded as follows: Yeas: Messieurs Coote, Dorion, Euler, Irvine, McPhee, Ralston, Raymond—7. Nays: Messieurs Beynon, Chaplin, Fraser *(Cariboo)*, Hackett, Robinson, Smoke, Stanley, White *(London)*, White *(Mount Royal)*—9.

The motion was again declared lost.

Subsection (3) stands for further consideration.

Consideration of amendment, accepted this day as a notice of motion, proposed by Mr. Ralston, viz:—

That section ten of Bill 19 be amended by striking out the word "Board" in the first line of subsection (4) of the said section and substituting therefor the word "Governor" and by striking out the words "by resolution of the Board approved" in the third line of the said subsection.

Motion to amend lost.

Subsection (4) stands for further consideration.

Mr. Morand suggested the advisability of inserting in this section (and in section six) a definite age limit. It was agreed that seventy-five years should be the prescribed limit.

On motion of Mr. Coote, and by leave, section six was opened for reconsideration.

It was agreed that a new paragraph should be added to subsection (2) of section six and to subsection (3) of section ten containing the prescribed age limit.

On motion of Mr. Ralston:—

Resolved: That the following be added to subsection (2) of section six of Bill 19:

(*f*) is a bankrupt or is insolvent.

Motion to amend lost.

It was pointed out by Mr. Raymond that in subsection (2) of section ten of the Bill, in the French version, the word "director" had been translated, in one instance, by the word "directeur" and, in another, by the word "administrateur."

On motion of Mr. Hackett:—

Ordered: That the Clerk of the Committee take up this matter of apparent lack of uniformity of translation with the proper Officer of the House.

Section 11 adopted.

Section 12 considered.

Consideration of amendment thereto, proposed this day by Mr. Rhodes:—

That section twelve of Bill 19 be struck out and the following substituted therefor:—

12. The *members of the Board* shall select a Chairman from amongst their number.

Motion to amend agreed to.

Section 12, as amended, adopted.

Section 13 considered.

Consideration of amendment proposed this day by Mr. Rhodes:—

That subsection (1) of section thirteen of Bill 19 be amended by striking out the words "acting by direction of the Board" at the end of the said subsection and substituting therefor the words *selected by* the Board.

Motion to amend agreed to.

Subsection (1), as amended, adopted.

Subsection (2) stands for further consideration.

Consideration of amendment proposed this day by Mr. Rhodes:—

That subsection (3) of section thirteen of Bill 19 be struck out and the following substituted therefor:—

(3) *Except when the Board is in session* the Executive Committee shall determine the minimum rates at which the Bank is prepared to discount or rediscount bills or to make advances and *the Bank* shall at all times make public *the* rates *at which it is prepared to discount or rediscount bills or to make advances.*

Motion to amend agreed to.

Subsection (3) as amended, adopted.

Subsection (4) adopted.

Section 14 considered.

Subsection (1) adopted.

Consideration of amendment proposed by Mr. Power on March 15, last, viz:—

That section fourteen of Bill 19 be amended by striking out subsections (2) and (3) of the said section.

The Committee took recess at 1 p.m.

AFTERNOON SESSION

The Committee reconvened at 4 p.m.

Consideration resumed of section 6 of Bill 19.

The following amendment to the said section, proposed by Mr. Rhodes, was accepted as a notice of motion and was, by leave, considered forthwith:—

That subsection (2) of section six of Bill 19 be amended by adding thereto the following as paragraph (*e*):—

(*e*) has reached the age of seventy-five years.

Motion to amend agreed to.

Consideration resumed of section 10.

The following amendment to the said section, proposed by Mr. Rhodes, was accepted as a notice of motion and was, by leave, considered forthwith:—

> That subsection (3) of section ten of Bill 19 be amended by adding thereto the following:—
>
> (*d*) has reached the age of seventy-five years.

Motion to amend agreed to.

Consideration resumed of section 14.

Motion to amend, proposed by Mr. Power, lost on division.

Subsections (2), (3), (4), (5) adopted.

On motion of Mr. Spencer:

> *Resolved:* That subsection (6) of section fourteen of Bill 19 be amended by inserting after the word "may" in the first line of the said subsection, the words "by by-law."

Motion to amend agreed to, on division.

Subsection (6), as amended, adopted.

Section 14, as amended, adopted.

Section 16 considered.

Consideration of amendment proposed this day by Mr. Coote:

> That section sixteen, subsection (1), be amended by striking out the words "Governor in Council" and substituting therefor the words "Parliament of Canada."

On motion of Mr. Geary:

> *Resolved:* That subsection (1) of section sixteen be further amended by inserting therein after the word "passed" in the third line of the said subsection the words "by the Board and ratified."

Motions agreed to; The subsection will be redrafted by Department officials, incorporating these amendments.

Consideration of amendment proposed by Mr. Irvine on March 15, last, viz:

> That subsection (2) of section sixteen of Bill 19 be amended by inserting the words "of which the majority shall always be held by and vested in the Minister on behalf of His Majesty and the balance of such certificates" after the words "share certificates" in the second line of the said subsection and by striking out the word "which" in the second line of the same subsection.

Motion to amend lost, on division.

Consideration of amendment proposed by Mr. Bowman on March 20, last, viz:

> That section sixteen of Bill 19 be amended in the following manner (a) by striking out the words "one hundred dollars" where they occur in the second and third line of subsection (2) of the said section and substituting therefor the words: "fifty dollars";

Motion to amend agreed to.

On motion of Mr. Rhodes:

Resolved: That subsection (2) of section sixteen of Bill 19 be further amended by inserting after the word "at" in the third line of the said subsection the words "not less than."

Motion to thus further amend agreed to.

Subsection (2) as amended, adopted.

Subsection (3) adopted.

Consideration of amendment proposed by Mr. Mackenzie (*Vancouver Centre*) on March 15, last, viz:

> That section sixteen of Bill 19 be amended by adding thereto the following:
>
> > The Minister shall at any time have the right on behalf of the Dominion of Canada to purchase such shares in whole or in part at not more than par.

By leave, this amendment was amended to read as follows:

> The Minister shall at any time have the right on behalf of the Dominion of Canada to purchase *all* shares *held by the public* at not more than par.

Motion to amend declared lost.

The names being called for, they were taken down as follows: Yeas: Messieurs Coote, Euler, Irvine, Lapointe, Ralston, Sanderson—6; nays: Messieurs Beynon, Chaplin, Fraser (*Cariboo*), Hackett, Rhodes, Robinson, Smoke, Stanley, White (*London*). White (*Mount Royal*), Willis—11.

The motion to amend was again declared passed in the negative.

Consideration of amendment proposed this day by Mr. Coote, viz:

> That subsection (4) of section sixteen of Bill 19 be amended by striking out the word "Board" where it occurs in the fourth line of the said subsection and substituting therefor the word "Minister."

Motion to amend agreed to.

Subsection (4) as amended, adopted.

Consideration of amendment proposed by Mr. Bowman on March 15, last, viz:

> That section sixteen of Bill 19 be amended in the following manner (b) by striking out the words "twenty-five dollars" where they occur in the first line of subsection (5) of the said section and substituting therefor the words "twelve dollars and fifty cents."

Motion to amend agreed to.

Subsection (5), as amended, adopted.

Subsection (6) and (7) adopted.

Consideration of amendment proposed by Mr. Spencer on March 15, last, viz:

> That section sixteen of Bill 19 be amended by inserting the following as subsection (7a):
>
> > (7a) The Minister may at any time call in the shares of stocks held by the several shareholders on paying par therefor and three months interest.

Motion to amend lost, on division.

Subsection (8) adopted, on division.

Subsection (9) adopted.

Mr. Coote gives notice of motion that he will, at a later stage, move an amendment to subsection (9).

Section 16, as amended, adopted.

Section 17 adopted.

Section 18 considered.

On motion of Mr. Ralston:

> *Resolved:* That section eighteen of Bill 19 be amended by inserting after the word "shall" where it first occurs in the seventh line of the said section, the words "*ipso facto* on the expiration of three months from the mailing at Otawa by registered mail of such requirement in the form of a notice in writing by the Minister to such shareholder."

Motion to amend agreed to.

Section 18, as amended, adopted.

On motion of Mr. Bowman, and by leave, section 19, adopted on March 15, last, was forthwith reconsidered.

On motion of Mr. Bowman:

> *Resolved:* That subsection (1) of section nineteen of Bill 19 be amended by striking out the words "twenty-five dollars" where they occur in the third line of the said subsection and substituting therefor the words "twelve dollars and fifty cents."

Motion to amend agreed to.

Section 19, as thus amended, adopted.

Consideration of section 20.

Paragraph (*a*), subsection (1), adopted.

Consideration of amendment proposed this day by Mr. Rhodes, viz:

> That subsection (1), paragraph (*b*) of section twenty of Bill 19 be amended to read as follows:
>
> > (*b*) effect transfers of funds by telegram, letter or other method of communication, and buy and sell *transfers effected by such means,* trade acceptances, bankers' acceptances, *bankers' drafts,* and bills of exchange drawn in or on places outside of Canada and having a maturity *not exceeding ninety days excluding days of grace, or not exceeding ninety days after sight excluding days of grace,* from the date of acquisition by the Bank.

Motion to amend agreed to.

Paragraph (*b*), as amended, adopted.

Paragraph (*c*) adopted.

Consideration of amendment proposed this day by Mr. Coote, viz:

> That paragraph (*d*) of subsection (1) of section twenty of Bill 19 be amended by striking out all the words after the word "Bank" where the said word first occurs in the fourth line of the said paragraph.

Proposed amendment to be further considered at the next sitting of the Committee.

The Committee adjourned to meet on Thursday, May 31, next at 11.00 a.m.

HOUSE OF COMMONS,

THURSDAY, May 31, 1934.

The Select Standing Committee on Banking and Commerce met this day at 11.00 a.m.

Mr. R. B. Hanson in the Chair.

Members present: Messieurs Baker, Beynon, Bothwell, Bowman, Casgrain, Coote, Donnelly, Dorion, Gagnon, Geary, Hackett, Hanson (*York-Sunbury*), Howard, Irvine, Jacobs, Lapointe, Mackenzie (*Vancouver Centre*), MacMillan (*Saskatoon*), McPhee, Mercier (*St. Henri*), Morand, Ralston, Raymond, Rhodes, Robinson, Smoke, Spencer, Stanley, Sullivan, White (*London*), White (*Mount Royal*), Willis—32.

Consideration resumed of Bill 19, An Act to incorporate the Bank of Canada.

The following proposed amendments were accepted as notices of motion:

Proposed by Mr. Rhodes:

That subsection (1), paragraph (*h*), of section twenty of Bill 19 be amended to read as follows:

(*h*) buy and sell or rediscount bills of exchange and promissory notes endorsed by a chartered bank, drawn or issued in connection with the production or marketing of products of agriculture, the forest, the quarry and mine, or the sea, lakes and rivers, as defined in *The Bank Act*, and having a maturity not exceeding *one hundred and eighty days excluduing days of grace* from the date of acquisition by the Bank; Provided that the Bank may by regulation limit to a percentage of its total assets the amount of such paper having a maturity in excess of *ninety days excluding days of grace but not exceeding one hundred and eighty days excluduing days of grace,* from the date of acquisition by the Bank;

Proposed by Mr. Rhodes:

That paragraph (i) of subsection (1) of section twenty of Bill 19 be amended by substituting the word "six" for the word "three" where it occurs in the second line of the said paragraph.

Proposed by Mr. Rhodes:

That paragraph (j) of subsection (1) of section twenty of Bill 19 be amended by adding after the word "advances," where it occurs in the first line of the said paragraph, the words "for periods not exceeding six months".

Proposed by Mr. Rhodes:

That section twenty of Bill 19 be amended as follows:

1. That the following be inserted as paragraph (j) of subsection (1):

(j) make loans or advances to discount corporations engaged in the business of buying and selling bills of exchange and

short-term government securities, such loans or advances to be for periods not exceeding thirty days and to be secured by the pledge or hypothecation of securities of the kinds and maturities defined in paragraphs (*c*), (*e*) and (*g*) of this subsection.

2. That the succeeding paragraphs be renumbered accordingly.

3. That paragraph (*m*) be amended by inserting after the word "Bank", where it occurs in the third line of the said paragraph, the words: "Or from any discount corporation doing the business described in paragraph (*j*) of this subsection".

Proposed by Mr. Rhodes:

That subsection (2) of section twenty-five of Bill 19 be amended by striking out the portion of the said subsection on page 12 of the Bill and substituting therefor the following:

(2) The reserve required by this section to be maintained shall *consist of* gold coin and bullion in the unrestricted ownership of the Bank *equal* to *an* amount *not less than* twenty-five per centum of the notes and deposit liabilities aforesaid; *and may in addition include*

(*a*) silver bullion received from the Minister under the next preceding section or purchased under the authority of section four hereof, valued at the market price of the fine silver content thereof; and

(*b*) foreign exchange, which shall mean

(i) balances with the Bank of England, the Bank for international Settlements, *the Federal Reserve Bank of New York*, and a central bank in any country whose currency by law and in fact is convertible on demand at a fixed price into exportable gold.

Proposed by Mr. Rhodes:

That subsection (1) of section thirty-five of Bill 19 be amended by deleting the word "March" in the second line of the said subsection and substituting therefor the word "February".

Proposed by Mr. Rhodes:

That subsection (2) of section thirty-five of Bill 19 be amended by deleting the word "twenty-five" where it occurs in the fourth line of the said subsection and substituting therefor the words "one hundred" and by deleting the words "five hundred" where they occur in the fifth line of the same subsection and substituting therefor the words "one thousand".

Proposed by Mr. Ralston:

(To provide for four Shareholder Directors and three State Directors—(In addition, the Governor and Deputy Governor are appointed or approved by the state.))

STRIKE OUT SECTION 9 AND SUBSTITUTE THEREFOR THE FOLLOWING:

9. (1) The first directors shall be appointed by the Governor in Council for terms to run respectively from the date of the appointment as follows: two until the third annual general meeting; two until the fourth annual general meeting; two until the fifth annual general meeting and one until the sixth annual general meeting.

(2) Thereafter, at the third annual general meeting two directors shall be elected by the shareholders, and at the fourth annual general meeting two

directors shall be elected by the shareholders, and as of the date of the fifth annual general meeting two directors shall be appointed by the Governor in Council, and as of the date of the sixth annual general meeting one director shall be appointed by the Governor in Council.

(3) Each director, other than a first director, whether elected or appointed, shall hold office until the fifth annual general meeting after his election or appointment, as the case may be; and from time to time on the expiration of the term of office of a director elected by the shareholders, his successor shall be elected by the shareholders; and from time to time on the expiration of the term of office of a director appointed by the Governor in Council, his successor shall be appointed by the Governor in Council.

(4) In the event of a vacancy amongst the Directors: if the director whose place has become vacant has been elected by the shareholders, the Board shall appoint a qualified person to hold office until the next annual meeting when the shareholders shall elect a person to fill the vacancy for the remainder of the term of such director; and, if the director whose place has become vacant has been appointed by the Governor in Council, the Governor in Council shall appoint a qualified person to fill the vacancy for the remainder of the term of such director.

(5) Directors shall be eligible for re-election and re-appointment.

Proposed by Mr. Ralston: (To require ratification of the Acts and decisions of the Executive Commmittee by the Board.)

Section 13 is amended by adding thereto the following as Subsection (5):—

> (5) Any Act or decision of the executive committee shall have force and effect only until the next meeting of the Board of Directors, and if any such Act or decision is not ratified at such meeting the same shall thereupon and therefrom cease to have force and effect except as to commitments made or obligations incurred pursuant to such Act or decision previous to such meeting.

Note.—(New Zealand Act, Chap. 12, 1933, Sec. 34 (2) requires that Acts of executive be confirmed by the Board.)

Proposed by Mr. Ralston: (To empower Deputy Minister of Finance to attend meetings of the Board and of the Executive Committee in a consultative capacity.)

Insert as new Section 13-A.

> Section 13-A—The Deputy Minister of Finance, or in case of his absence or incapacity at any time, such other representative of the Department of Finance as the Minister may name for the time being, shall, by virtue of his office or of such nomination as the case may be.
>
> > (1) be given notice of and shall have the right to attend all meetings of the Board and of the Executive Committee in a consultative capacity but without the right to vote.

Note.—New Zealand Act, Chap. 12, 1933, Section 23 (2) contains provisions making the Secretary of the Treasury a non-voting member of the Board. This gives the Department of Finance entrée to the meetings of the Board and thus keeps the Minister informed of all deliberations and discussions.

> > (3) have the right to protest against any act or decision of the Board or of the Executive Committee (except a decision nominating a Commissioner as hereinafter provided for) which he may consider to be contrary to law or against the interests of the State, by filing such protest in writing with the Board or the Executive Committee

as the case may be, and with the Minister, and any such protest, unless the same is not concurred in by the Minister within two days shall have the force of a suspensive veto so that nothing shall be done under the authority of or pursuant to such act or decision until the merits of the protest shall have been decided upon by a Commission of three persons constituted as follows: One person to be named by the Board and one person to be named by the Minister within seven days after such protest, and one person, to be the Chairman to be chosen jointly by the Minister and the Bank, and in default of agreement on such last mentioned person within seven days after such protest, such Chairman shall be the Chief Justice or Acting Chief Justice of the Supreme Court of Canada; the decision of such Commission to be made within seven days after the Commission has been constituted or within such further time as the Minister and the Bank may agree upon and the decision of the Commission shall have the full force and effect of a decision of the Board of Directors in respect of which no protest has been filed.

Mr. Coote intimated to the Committee that Mr. J. Maynard Keynes, of London, England, was now in Washington and suggested that the Committee should consider the advisability of asking Mr. Keynes to appear before the Committee.

On motion of Mr. Coote:

Resolved: That Mr. J. Maynard Keynes, of London, England, at present in Washington, D.C., be asked to give evidence before the Committee.

Motion declared lost.

The names being called for, they were taken down as follows: Yeas: Messieurs Coote, Mackenzie (*Vancouver Centre*), Spencer—3; Nays: Messieurs Baker, Casgrain, Dorion, Gagnon, Hackett, Jacobs, Ralston, Robinson, Smoke, Stanley, White (*London*), White (*Mount Royal*) ,Willis—13.

The motion was again declared passed in the negative.

Consideration resumed of section 20.

Consideration of amendment proposed by Mr. Coote, on May 29, last, viz:

That paragraph (*d*) of subsection (1) of section twenty of Bill 19 be amended by striking out all the words after the word "Bank" where it first occurs in the third line of the said paragraph.

On motion of Mr. Rhodes:

Resolved: That paragraph (*d*) of subsection (1) of section twenty of Bill 19 be amended by striking out the word "twice" where it occurs in the seventh line of the said paragraph and substituting therefor the words "three times."

This latter motion to amend being agreed to, Mr. Coote, by leave, withdrew his proposed amendment.

Paragraph (*d*), as amended, adopted.

Paragraphs (*e*) and (*f*) adopted.

Consideration of amendment proposed by Mr. Rhodes, on May 29, last, viz:

That paragraph (*g*) of subsection (1) of section twenty of Bill 19 be amended to read as follows:

(*g*) buy and sell or rediscount bills of exchange and promissory notes endorsed by a chartered bank drawn or issued in connection with the production or marketing of goods, wares and merchandise as defined in *The Bank Act*, excepting those mentioned in paragraph (*h*) of this subsection, and having a maturity not exceeding *ninety days excluding days of grace, or not exceeding ninety days after sight excluding days of grace*, from the date of acquisition by the Bank;

Motion to amend agreed to.

Paragraph (*g*), as amended, adopted.

Paragraph (*h*), as proposed by Mr. Rhodes this day, adopted.

On motion of Mr. Rhodes:

Resolved: That paragraph (*i*) of subsection (1) of section twenty of Bill 19 be amended by striking out the word "three" where it occurs in the second line of the said paragraph and substituting therefor the word "six."

Motion to amend agreed to.

Paragraph (i), as amended, adopted.

On motion of Mr. Rhodes:

Resolved: That paragraph (*j*) of subsection (1) of section twenty of Bill 19 be amended by inserting therein after the word "advances" in the first line of the said paragraph the words "for periods not exceeding six months."

Motion to amend agreed to.

Paragraph (*j*), as amended, adopted, on division.

Consideration of amendment proposed this day by Mr. Rhodes, viz:

That the following be inserted as paragraph (*j*) of subsection (1) of section twenty of Bill 19:

(*j*) make loans or advances to discount corporations engaged in the business of buying and selling bills of exchange and short-term government securities, such loans or advances to be for periods not exceeding thirty days and to be secured by the pledge or hypothecation of securities of the kinds and maturities defined in paragraphs (*c*), (*e*) and (*g*) of this subsection.

Proposed amendment to be further considered.

Paragraph (*k*) adopted.

Consideration of amendment proposed by Mr. White (*Mount Royal*), on March 20, last, viz:

That paragraph (*l*) of subsection (1) of section twenty of Bill 19 be amended by striking out the words "promissory notes" where they occur in the fourth line of the said paragraph.

Motion to amend agreed to.

Paragraph (*l*), as amended, adopted.

Consideration of amendment proposed this day by Mr. Rhodes postponed:

> That paragraph (*m*) of subsection (1) of section twenty of Bill 19 be amended by inserting after the word "Bank" where it occurs in the third line of the said paragraph the words "or from any discount corporation doing the business described in paragraph (*j*) of this subsection."

Paragraphs (*n*), (*o*) and (*p*) adopted.

Subsection (2) adopted.

Section 21 considered.

Paragraph (*a*) adopted.

Consideration of amendment proposed by Mr. Coote, on May 29, last, viz:

> That paragraph (*b*) of section twenty-one of Bill 19 be amended by striking out the words "except the Bank for International Settlements."

Motion to amend lost, on division.

Paragraph (*b*) adopted, on division.

Paragraphs (*b*) to (*f*), both inclusive, adopted.

Section 21 adopted.

Section 22 adopted.

Section 23 considered.

Subsections (1), (2) and (3) adopted.

Consideration of amendment proposed by Mr. Lapointe, on March 15, last, viz:

> That section twenty-three of Bill 19 be amended by striking out subsection (4) of the said section and substituting therefor the following:
>
> (4) The notes shall be printed in the English and French languages and their form and material shall be subject to approval by the Minister.

The following amendment proposed by Mr. Rhodes was accepted as a notice of motion:

> That subsection (4) of section twenty-three of Bill 19 be amended by adding thereto the following:
>
> Provided that notes in either the English or the French language shall be available as required.

Consideration of these proposed amendments postponed.

Subsection (5) adopted.

Section 24 stands for further consideration.

Section 25 considered.

Consideration of amendment proposed by Mr. Coote, on March 22, last, viz:

> That subsection (1) of section twenty-five of Bill 19 be amended by striking out the words "and deposit liabilities", after the word "notes" where they occur in the third line of the said subsection.

Motion to amend lost.

Subsection (1) adopted.

The Committee took recess at 1:00 p.m.

AFTERNOON SESSION

The Committee reconvened at 4.00 p.m.

Consideration resumed of section 25 of Bill 19.

In connection with the question raised at the meeting held on May 29, last, by Mr. Raymond *re* apparent lack of uniformity in translation of the word "director", the Chairman read the following statement:—

At the last meeting of the Committee, Mr. Raymond directed the attention of the Committee to a lack of uniformity in the translation, in section ten of Bill 19, of the word "director". In one line of that section, in the French version of the Bill, the word "administrateur" is used and in another, in the same section, the word "directeur".

Mr. Hackett suggested that the Clerk of the Committee take up the matter with the proper Officer of the House.

The Law Translator who had charge of the translation of Bill 19 directs attention to the interpretation clause of the Bill, where "administrateur" is defined.

He points out that in *The Bank Act* the word "directeur" is used throughout; that in section 10, French version, of Bill 19, where "directeur" is used, it means "director of a chartered bank"; in all other cases "administrateur" means "director of The Bank of Canada".

Directors of European Central Banks are called, in French, "administrateurs"; e.g. Bank for International Settlements. (See official French version of By-laws of Bank for International Settlements, 1930).

The use of the word "directeurs", in Canada, to designate a director of our Central Bank might be confusing to European Central Banks.

It was agreed that Mr. Raymond, and others interested, should discuss the matter further with the Law Translator.

Consideration of amendment proposed by Mr. Spencer on May 29, last, viz:

> That section twenty-five of Bill 19 be amended by striking out all the words after the word "Bank" where it occurs in the second line of paragraph (*a*) of subsection (2) of the said subsection.

Motion to amend lost.

Consideration of amendment proposed by Mr. Coote, on March 22, last, viz:

> That subsection (2) of section twenty-five of Bill 19 be amended by striking out paragraph of the (*a*) subsection and substituting therefor the following:
>
> (*a*) gold coin and bullion and foreign exchange in the unrestricted ownership of the Bank to the amount of twenty-five per centum of the note issue.

Motion to amend lost.

Consideration of amendment proposed this day by Mr. Rhodes, viz:

> That subsection (2) of section twenty-five of Bill 19 be amended by striking out the portion of the said subsection which appears on page 12 of the Bill and substituting therefor the following:
>
> (2) The reserve required by this section to be maintained shall *consist of* gold coin and bullion in the unrestricted ownership of the Bank *equal* to *an* amount *not less than* twenty-five per centum of the notes and deposit liabilities aforesaid; *and may in addition include*

(*a*) silver bullion received from the Minister under the next preceding section or purchased under the authority of section four hereof, valued at the market price of the fine silver content thereof; and

(*b*) foreign exchange, which shall mean

(i) balances with the Bank of England, the Bank for international Settlements, *the Federal Reserve Bank of New York,* and a central bank in any country whose currency by law and in fact is convertible on demand at a fixed price into exportable gold.

Motion to amend agreed to.

Subparagraph (ii) adopted.

On motion of Mr. Rhodes:

Resolved: That subparagraph (iii) of (b) of subsection (2) of section twenty-five of Bill 19 be amended by striking out the words "three months" where they occur in the second line of the said subparagraph and substituting therefor the following:

ninety days excluding days of grace, or not exceeding ninety days after sight excluding days of grace

Motion to amend agreed to.

On motion of Mr. Rhodes:

Resolved: That subsection (2) of section twenty-five of Bill 19 be amended by striking out the word "foreign" where it occurs in line 13 on page 13 of the Bill.

Motion to amend agreed to.

Subsection (2), as amended, adopted.

Consideration of amendment proposed by Mr. Coote on March 22, last, viz:

That subsection (3) of section twenty-five of Bill 19 be amended by striking out the words "and liabilities" in the fourth line of the said subsection.

Motion to amend lost.

On motion of Mr. Geary:

Resolved: That subsection (3) of section twenty-five of Bill 19 be amended by inserting therein after the word "gold" in the third line of the said subsection the words "equal to an amount not less than".

Motion to amend agreed to.

On motion of Mr. Rhodes:

Resolved: That subsection (3) of section twenty-five of Bill 19 be further amended by inserting before the word "liabilities" in the fourth line of the said subsection the word "deposit".

Motion to thus further amend agreed to.

Subsection (3) as amended, adopted.

Subsection (4) adopted.

Section 26 stands for further consideration.

Section 27 considered.

Mr. S. H. Logan, Acting President, The Canadian Bankers' Association, was called, made a statement and was examined thereon.

Consideration of section 27 to be resumed at the next sitting of the Committee.

The Committee adjourned to meet on Tuesday, June 5, next, at 10 a.m.

HOUSE OF COMMONS,

TUESDAY, June 5, 1934.

The Select Standing Committee on Banking and Commerce met this day at 10.00 a.m.

Mr. R. B. Hanson in the Chair.

Members present: Messieurs Arthurs, Baker, Beynon, Bothwell, Bowman, Casgrain, Chaplin, Coote, Dorion, Duff, Ernst, Euler, Fraser (*Cariboo*), Gagnon, Geary, Hackett, Hanson (*York-Sunbury*), Howard, Irvine, Jacobs, Lapointe, Laurin, Mackenzie (*Vancouver Centre*), MacMillan (*Saskatoon*), McGibbon, Ralston, Raymond, Rhodes, Robinson, Sanderson, Smith (*Cumberland*), Smoke, Spencer, Stanley, White (*London*), White (*Mount Royal*), Willis.—37.

The following proposed amendments to Bill 33, An Act to amend the Quebec Savings Banks Act, were accepted as notices of motion:

Proposed by Mr. Rhodes:

That the Bill be amended by inserting the following as section two thereof:

> 2. Section five of the said Act is amended by adding thereto the following as subsection two:
>
> > 2. When by this Act a notice is required to be published in a newspaper for four weeks or any longer period, publication each week in a weekly newspaper, or once a week during the period in a newspaper published more frequently, shall be a sufficient publication for the purposes of this Act.

Explanatory Note.—As section five stands at present it would imply daily publication, whereas publication once a week during the period mentioned would suffice and be in conformity with similar provisions in the Bank Act.

Proposed by Mr. Rhodes:

That the Bill be amended by inserting the following as section three thereof:

> 3. Section thirty-two of the said Act is amended by striking out all the words after the word "may" at the end of the third line and by adding:
>
> > from time to time pay any or all of the principal thereof, and any or all of the interest thereon, to or to the order of such person, unless before such payment the money so deposited in the bank is lawfully claimed as the property of some other person.

Explanatory Note.—This amendment, if adopted, will conform to similar amendments in section 95 of the Bank Act.

Proposed by Mr. Rhodes:

That the Bill be amended by inserting the following as section four thereof:—

> 4. Section thirty-three of the said Act is amended by adding thereto the following as subsection two:—
>
> > 2. An attaching or garnishee order or summons shall only affect and bind moneys to the credit of the debtor at the Branch, Agency or Office of the Bank where such order or summons or notice thereof is served.

Explanatory Note.—A subsection similar to the above was added to section 96 of the Bank Act in 1923 and remains incorporated in the provisions of the revised Act. It is but natural that the Quebec Savings Banks Act should contain a similar provision inasmuch as both institutions operating thereunder conduct respectively 23 and 13 branch offices in addition to their principal office.

Proposed by Mr. Rhodes:

That the Bill be amended by inserting the following as section five thereof:—

> 5. Section thirty-four of the said Act is amended by inserting after the word "Canada" in clause (*b*) thereof the words "or in the Bank of Canada".

Explanatory Note.—In view of the proposed establishment of the Bank of Canada it is natural to provide that deposits may be maintained therein as well as in the chartered banks.

Proposed by Mr. Rhodes:

That the Bill be amended by inserting the following as section six thereof:—

> 6. Section forty-seven of the said Act is amended by adding thereto the words "or in the Bank of Canada".

Explanatory Note.—This amendment is proposed for the same reason as the amendment to section 34.

Proposed by Mr. Rhodes:

That the Bill be amended by inserting the following as section seven thereof:—

> 7. Section forty-nine of the said Act is repealed and the following substituted therefor:—
>
> 1. The Inspector-General of Banks from time to time, but not less frequently than once in each calendar year, shall make or cause to be made an examination and inquiry into the affairs or business of the bank and report thereon to the Minister, and for such purposes the Inspector-General of Banks shall have, exercise and perform all the rights, powers and duties given to him under the provisions of the Bank Act.
>
> 2. Provided an appropriation therefor has been made by Parliament, the salaries, remuneration and other expenses incidental to such inquiries or examinations shall be paid out of the Consolidated Revenue Fund and the Consolidated Revenue Fund shall be recouped for such outlay by an assessment upon the banks made in the same manner as is provided for similar outlays in respect of the examinations of chartered banks by the Inspector-General of Banks under the provisions of the Bank Act.

Explanatory Note.—It is proposed by this amendment to make the banks incorporated under this Act subject to the same examination as the chartered banks under section 56 of the Bank Act.

Proposed by Mr. Rhodes:

That the Bill be amended by inserting the following as section eight thereof:—

8. Section fifty-five of the said Act is amended by striking out subsection two thereof and replacing it by the following:—

> (2) If any deposit made under the authority of this Act is subject to a trust of which the bank has notice, the receipt or cheque of the person in whose name any such deposit stands, or, if it stands in the names of two or more than two persons, the receipt or cheque of all such persons,

or of such of them as under the document creating the trust may be entitled to receive such deposit, shall, notwithstanding any trust to which such deposit is then subject, be a sufficient discharge to all concerned for the payment of any money payable in respect of such deposit, and the bank shall not be bound to see to the application of any money paid upon such receipt or cheque.

(3) Except only in the case of a lawful claim by some other person before repayment, the receipt or cheque of the person in whose name any deposit stands, or, if it stands in the name of two persons, the receipt or cheque of one, or if it stands in the names of more than two persons the receipt or cheque of a majority of such persons, shall be a sufficient discharge to all concerned for the payment of any money payable in respect of such deposit.

Explanatory Note.—These amendments are similar to amendments made to section 96 of the Bank Act.

Proposed by Mr. Rhodes:

That the Bill be amended by inserting the following as section nine thereof:—

9. Section fifty-eight of the said Act is repealed and the following substituted therefor:

58. The bank shall within twenty days after the close of each calendar year transmit or deliver to the Minister, to be laid before Parliament, a return of shareholders as at the end of such calendar year showing the names, occupations and residences of such shareholders and the number of shares then respectively held by them, together with the amount, if any, remaining to be paid thereon.

Explanatory Note.—The purpose of this amendment is to provide specifically that such returns be made at the close of the calendar year, as is the case under the Bank Act.

Proposed by Mr. Rhodes:

I move that the Bill be amended by inserting the following as section ten thereof:—

10. Section fifty-nine of the said Act is amended by inserting after the word "return" in the third line thereof the words "as at the end of such calendar year".

Explanatory Note.—This amendment is for the same purpose as the amendment to section 58.

Proposed by Mr. Rhodes:

That the Bill be amended by inserting the following as section eleven thereof:—

11. Subsection three of section sixty-seven of the said Act is repealed and the following substituted therefor:

67 (3) Any person appointed or selected by the Minister under section forty-eight of this Act shall be deemed to be an officer of the bank within the meaning of this section.

Explanatory Note.—The subsection as it now stands applied to persons appointed or selected by the Minister "to examine or inquire specially into any of the affairs or business of the bank." The provision for special examinations or inquiries is, however, being eliminated by the repeal of section 49 and the substitution therefor of a new section providing for regular examinations by the Inspector-General of Banks.

Proposed by Mr. Rhodes:

That the Bill be amended by inserting the following as section twelve thereof:—

> 12. Section sixty-nine of the said Act is amended by inserting after the word "Dominion" in the second line thereof the words "or Bank of Canada."

Explanatory Note.—This amendment is consequent upon the proposed establishment of the Bank of Canada.

Proposed by Mr. Rhodes:

That the Bill be amended by inserting the following as section thirteen thereof:—

> 13. The Schedule of the said Act is amended by adding to Item 2 of Assets therein the words "or in the Bank of Canada."

Explanatory Note.—This amendment is consequent upon the establishment of the Bank of Canada and the amendments proposed to sections 34 and 47 of this Act.

Consideration resumed of Bill 19, an Act to incorporate The Bank of Canada.

Mr. W. C. Clark, Deputy Minister of Finance, Ottawa, Canada, was called, made a statement and was questioned thereon.

Witness discharged.

Mr. S. H. Logan, Toronto, Ontario, Acting President, The Canadian Bankers' Association, was recalled, made a statement in reply to certain questions raised on cross-examination at the last meeting.

Witness discharged.

Consideration of section 27.

Subsection (1) adopted.

Subsection (2) adopted, on division.

Section 27 adopted, on division.

Section 28 considered.

Consideration of amendment proposed by Mr. Duff, on March 22, last, viz:—

> That clause 28 of Bill 19 be amended by striking out all the words after the word "basis" in the fifth line of the said clause and substituting therefor the following: "of the current market value at the date of the relevant transactions."

Motion to amend lost.

Section 28 adopted.

Section 29 adopted.

Section 30 considered.

Consideration of amendment proposed by Mr. Spencer, on March 15, last, viz:—

> That section thirty of Bill 19 be amended by striking out all the words after the word "and" in the fifth line of the said section down to and including the word "half yearly" in the eighth line of the same section

and substituting therefor the following words: "after deducting an amount equal to five per centum of the paid-up capital which may be utilized for the payment of cumulative dividends at the rate of five per centum payable half-yearly".

Motion to amend, by leave, was withdrawn.

Consideration of amendment proposed by Mr. Bowman, on March 20, last, viz:—

That section thirty of Bill 19 be amended by striking out the word "six" where it occurs in the fifth line of the said section and substituting therefor the word "five".

On motion of Mr. Euler:—

Resolved: That this amendment be amended by striking out the word "five" and substituting therefor the words "four and one-half".

Motion to amend the amendment declared carried.

The names being called for, they were recorded as follows:—Yeas: Messieurs Baker, Beynon, Casgrain, Coote, Euler, Howard, Irvine, Lapointe, Ralston, Raymond, Sanderson, Smith (*Cumberland*), Stanley, White (*Mount Royal*),—14; Nays: Messieurs Arthurs, Chaplin, Duff, Fraser (*Cariboo*), Hackett, Robinson, White (*London*), Willis—8. Mr. Dorion, paired with Mr. Michaud, announced that had he voted he would have voted for the amendment.

The motion to amend was again declared resolved in the affirmative.

Section 30, as amended, adopted.

Section 31 stands for further consideration.

Section 32 adopted.

Section 33 considered.

Subsection (1) adopted.

On motion of Mr. Ralston:—

Resolved: That subsection (2) of section thirty-three of Bill 19 be amended by striking out the words "three months" where they occur in the first line of the said subsection and substituting therefor the words "six weeks".

Motion to amend agreed to.

Subsection (2), as amended, adopted.

Subsection (3) adopted.

Section 33, as amended, adopted.

Section 34 adopted.

Section 35 considered.

Consideration of amendment proposed by Mr. Rhodes, on May 31, last, viz:—

That subsection (1) of section thirty-five of Bill 19 be amended by deleting the word "March" in the second line of the said subsection and substituting therefor the word "February".

Motion to amend agreed to.

Subsection (1), as amended, adopted.

Consideration of amendment proposed by Mr. Rhodes, on May 31, last, viz:—

> That subsection (2) of section thirty-five of Bill 19 be amended by deleting the word "twenty-five" where it occurs in the fourth line of the said subsection and substituting therefor the words "one hundred" and by deleting the words "five hundred" where they occur in the fifth line of the same subsection and substituting therefor the words "one thousand".

Motion to amend agreed to.

Subsection (2), as amended, adopted.

Subsection (3) stands for further consideration. Mr. Coote proposed the following amendment, which was accepted as a notice of motion:—

> That section thirty-five of Bill 19 be amended by adding to subsection (3) the following:—"but no person, other than the Minister, shall vote for more than fifty shares".

Subsections (4) and (5) adopted.

Sections 36 to 41, both inclusive, adopted.

Section 42 considered.

Subsection (1), paragraphs (a) to (f), both inclusive, adopted.

On motion of Mr. Rhodes:—

> *Resolved*: That paragraph (g) of subsection (1) of section forty-two of Bill 19 be amended by deleting the word "affairs" where it occurs in the second line of the said paragraph and substituting therefor the word "undertaking".

Motion to amend agreed to.

Subsection (1), as amended, adopted.

Subsection (2) adopted.

On motion of Mr. Jacobs:—

> *Resolved*: That section forty-two of Bill 19 be amended by deleting subsection (3).

Motion to amend agreed to.

Subsection (4), to be renumbered (3), adopted.

Section 42, as amended, adopted.

Section 43 stands for further consideration.

Schedules A, B and C adopted.

The following amendment proposed by Mr. Rhodes was accepted as a notice of motion: viz:—

> That section five be reconsidered and that it be amended by adding thereto the following as subsection (2):—
>
> (2) In addition to the Members of the Board as constituted by subsection (1) of this section, the Deputy Minister of Finance, or, in case of his absence or incapacity at any time, such other officer of the Department of Finance as the Minister may nominate for the time being, shall be by virtue of his office or of such nomination, as the case may be, a member of the Board, but shall not have the right to vote.

Section 6 further considered.

Consideration of amendment thereto, proposed by Mr. Rhodes, accepted as a notice of motion and, by leave, considered forthwith:—

> That subsection (2) of section six of Bill 19 be amended by striking out paragraph (*d*) and substituting therefor the following:—
>
> (*d*) is a director, officer or employee of any other bank or financial institution or has an interest as a shareholder in any bank or other financial institution.
>
> NOTE: Paragraph (*d*) in the Bill reads "..... or has an interest as shareholder in any *chartered* bank or other financial institution *in Canada*". The words in italic are now omitted.

Motion to amend agreed to.

Amendment proposed by Mr. Raymond, on March 20, last, viz:—

> That section six of Bill 19 be amended by adding to paragraph (*d*) of subsection (2) of the said section, after the word "Canada", at the end of the paragraph, the following words: "or elswhere", further considered and was, by leave, withdrawn.

Subsection (2), as amended, adopted.

Section 6, as amended, adopted.

Section 7 further considered.

Consideration of amendment proposed by Mr. Rhodes, on May 29, last, viz:

> That subsection (1) of section seven of Bill 19 be amended by striking out the words at the end of the subsection "or at a meeting of shareholders" and substituting therefor the words "or *by the Executive Committee* or *by* a meeting of shareholders".

Motion to amend agreed to.

Subsection (1), as amended, adopted.

Subsections (2), (3) and (4) adopted.

Section 7, as amended, adopted.

Section 8 further considered.

The following amendment thereto, proposed by Mr. Rhodes, was accepted as a notice of motion and was, by leave, considered forthwith:

> That section eight of Bill 19 be amended as follows:
>
> 1. By striking out subsection (1) and substituting therefor the following:
>
>   "(1) The Governor, Deputy Governor and Assistant Deputy Governor shall *each be appointed as hereinafter provided* for *a term of* seven years *or, in the case of the first Governor, Deputy Governor and Assistant Deputy Governor, for such shorter period as the Governor in Council may determine.*
>
> 2. By adding the following as subsection (5):
>
>   (5) *The Governor, Deputy Governor and Assistant Deputy Governor shall each hold office for the aforesaid term during good behaviour.*

Subsection (1) stands for further consideration.

Subsections (2), (3) and (4) adopted.

Subsection (5), as now proposed, agreed to.

Section 9 further considered.

Amendment proposed by Mr. Coote, on May 29, last, viz:

> That section nine of Bill 19 be amended by providing that the Minister of Finance should *ex officio* be a Director of the Bank

was considered, and, by leave, was withdrawn.

The following amendment to the said section, proposed by Mr. Rhodes was accepted as a notice of motion and was, by leave, considered forthwith:

> That subsection (1) of section nine of Bill 19 be struck out and the following substituted therefor:
>
> 9. (1) *Notwithstanding anything contained in section ten of this Act, the first, or provisional, directors of the Bank shall be the following members of the Civil Service of Canada, namely, The Deputy Minister of Finance; The Counsellor of the Department of External Affairs; The Comptroller, Government Guarantees; The Comptroller of the Treasury; The Comptroller of Currency; The Director of Estimates and Assistant Secretary to the Treasury Board; and The Solicitor to the Treasury who shall remain in office until replaced by directors duly elected in their stead at the first general meeting of shareholders. The said first of provisional directors shall serve without remuneration.*
>
> (2) *At the first general meeting of shareholders aforesaid, directors shall be elected* for terms to run as follows: one until the third annual general meeting, two until the fourth annual general meeting, two until the fifth annual general meeting and two until the sixth annual general meeting respectively.

These amendments stand for further consideration.

Consideration of amendment proposed by Mr. Ralston, on May 31, last, viz:

> (To provide for four Shareholder Directors and three State Directors. . . In addition, the Governor and Deputy Governor are appointed or approved by the State). (For terms of admendment, see Minutes of Proceedings, May 31, 1934, at p. 104.)

Motion to thus amend declared lost.

The names being called for they were taken down as follows: Yeas, Messieurs Casgrain, Coote, Howard, Irvine, Lapointe, Ralston, Raymond, Sanderson—8; Nays, Messieurs Baker, Chaplin, Fraser (*Cariboo*), Hackett, McGibbon, Rhodes, Robinson, Stanley, White (*London*), white (*Mount Royal*), Willis—11.

The motion was again declared passed in the negative.

The Committee took recess at 1.00 p.m.

AFTERNOON SESSION

The Committee reconvened at 4.00 p.m.

Consideration resumed of section 9 of Bill 19.

Amendment proposed by Mr. Rhodes this day, agreed to, on division.

Subsections (2), (3) and (4) adopted.

Section 9, as amended, adopted, on division.

Section 10 further considered.

The following amendment, proposed by Mr. Rhodes, was accepted as a notice of motion and, by leave, was considered forthwith: That section ten of Bill 19 be amended as follows:

1. By striking out subsection (1) and substituting therefor the following:
   "(1) No person except a shareholder *who is the registered owner of ten shares* of the capital stock *and who has paid all calls thereon* shall be elected or shall continue to hold office as a director.
2. By striking out the words "appointed or" where they occur in the first line of subsection (3) of the said section.

Subsection (1), as amended, adopted.

Subsection (2) adopted.

On motion of Mr. McGibbon:

Resolved: That subsection (3) of section ten of Bill 19 be further amended by deleting paragraph (b), viz: is a member of either House of Parliament or of a Provincial Legislature.

Motion to thus further amend agreed to.

Subsection (3), as amended, adopted.

Subsection (4) adopted, on division.

Section 10, as amended, adopted, on division.

Section 13 further considered.

Subsection (2) adopted.

Consideration of amendment proposed by Mr. Ralston, on May 31, last, viz (To require ratification of the Acts and decisions of the Executive Committee by the Board) (For text of amendment, see Minutes of Proceedings, May 31, 1934, p. 105.)

Motion to thus amend, lost.

The following amendment, proposed by Mr. Rhodes, was accepted as a notice of motion and, by leave, was considered forthwith, viz:

That section thirteen of Bill 19 be amended by adding thereto the following as subsection (5):

(5) In addition to the Members of the Executive Committee as constituted by subsection (1) of this section, the Deputy Minister of Finance or, in case of his absence or incapacity at any time, such other officer of the Department of Finance as the Minister may nominate for the time being shall be by virtue of his office or of such nomination, as the case may be, a member of the Executive Committee, but shall not have the right to vote.

Motion to thus amend agreed to.

Consideration of amendment proposed by Mr. Ralston, on May 31, last, (To empower Deputy Minister of Finance to attend meetings of the Board and of the Executive Committee in a consultative capacity). (For text of proposed amendment, see Minutes of Proceedings, May 31, 1934, at p. 105.)

The Deputy Minister of Finance (Mr. W. C. Clark) was heard. In view of the previous amendment adopted, it was agreed that, by leave, Mr. Ralston should withdraw his amendment, without prejudice to his right to propose the same, or a similar, amendment when the Bill, as amended and reported, shall be under consideration by the Committee of the Whole.

Section 13, as amended, adopted.

On motion of Mr. Ralston:

Resolved: That the following be added to Bill 19 as section 13A thereof:

13A. No action or decision of the Board of Directors, or of the Executive Committee, shall have any effect unless the same is concurred in by the Governor, or in his absence or incapacity, by the Deputy Governor.

Motion to thus amend agreed to, and on a standing vote, Yeas, 7; Nays, 6.

Section 13A adopted.

On motion of Mr. Hackett:

Resolved: That section sixteen of Bill 19 be reconsidered and be amended by inserting the following after subsection (8) thereof:

"or a trustee holding shares in trust for the beneficial interest of a British subject or corporations qualified to hold said shares."

Motion to thus amend lost on a standing vote: Yeas, 2; Nays, 10.

Section 20 further considered.

Amendment proposed by Mr. Rhodes, on May 31, last, to paragraph (*j*) of subsection (1) of section twenty, viz:

That the following be inserted as paragraph (*j*) of subsection (1) of section twenty of Bill 19:

(*j*) make loans or advances to discount corporations engaged in the business of buying and selling bills of exchange and short-term government securities, such loans or advances to be for periods not exceeding thirty days and to be secured by the pledge or hypothecation of securities of the kinds and maturities defined in paragraphs (*c*), (*e*) and (*g*) of this subsection.

was further considered and, by leave, was withdrawn.

Amendment proposed by Mr. Rhodes, on May 31, last, to paragraph (*m*) of subsection (1) of section twenty, viz:

That paragraph (*m*) of subsection (1) of section twenty of Bill 19 be amended by inserting after the word "Bank" where it occurs in the third line of the said paragraph the words "or from any discount corporation doing the business described in paragraph (*j*) of this subsection."

was further considered and, by leave, was withdrawn.

On motion of Mr. Rhodes:

Resolved: That paragraph (*d*) of subsection (1) of section twenty of Bill 19 be amended by inserting in line seven of the said paragraph, immediately preceding the words "in excess," the words "of a par value."

Section 20, as amended, adopted.

Section 24 further considered.

Consideration of Mr. Irvine's amendment, proposed on May 29, last, to strike out subsections (1) and (2) of the said section.

Subsections (1) (2) and (3) adopted, on division.

Subsections (4), (5) and (6) adopted.

Section 24 adopted, on division.

Section 25 further considered and adopted, as amended.

Section 26 further considered.

The following amendment thereto, proposed by Mr. Rhodes, was accepted as a notice of motion and was, by leave, considered forthwith, viz:

That section twenty-six of Bill 19 be amended as follows:

1. By striking out subsection (1) and substituting the following therefor:

(1) Every chartered bank shall on and after the day on which the Bank is authorized to commence business maintain a *reserve of not less than* five per centum of its deposit liabilities within Canada *and such reserve shall consist of a deposit with the Bank and of notes of the Bank held by such bank.*

2. By inserting the following as subsections (2) and (3) thereof:

(2) For the purposes of this section, every chartered bank shall make a return to the Bank to be signed by the chief accountant or acting chief accountant and by the general manager or acting general manager of such bank, showing the amount of its deposit liabilities within Canada and also the amount of its deposit with the Bank and the amount of the notes of the Bank held by such bank, at the end of each juridical day of the month last preceding the date of the return, and showing for the month the daily average amount of such deposit liabilities and of its deposit with the Bank and of the notes of the Bank held by such bank. Such return shall be delivered or transmitted to the Bank at the same time as the return to the Minister, pursuant to section one hundred and twelve of *The Bank Act,* is transmitted or delivered.

(3) The daily average amount of deposit liabilities within Canada for each chartered bank shall be the basis of determining the amount of the reserve to be maintained by such bank during the month next following the month in which such return was made.

3. By striking out the words "the preceding subsection where they occur in the second line of subsection (2) and substituting therefor the words "this section" and by striking out the words "deposit maintained by it with the Bank" where they occur in the sixth line of the same subsection and substituting therefor the words "reserve maintained by the chartered banks."

4. By renumbering subsections (2) and (3) to read (4) and (5) respectively.

5. By striking out subsection (4) and substituting the following as subsection (6):

(6) In the event of the property and assets of the Bank being insufficient to pay its debts and liabilities, and if the Bank suspends payment of any of its liabilities, the deposit made hereunder by every chartered bank is hereby guaranteed, and the Governor in Council, on the recommendation of the Minister of Finance, shall authorize payment out of the Consolidated Revenue Fund of such moneys as may be necessary to implement such guarantee.

Motion to amend agreed to, on division.

Section 26, as amended adopted.

Section 23 further considered.

Consideration of amendment proposed by Mr. Lapointe on March 15, last, viz:

> That section twenty-three of Bill 19 be amended by striking out subsection (4) and substituting therefor the following:
>
> (4) The notes shall be printed in the English and French languages and their form and material shall be subject to approval by the Minister.

Motion to amend declared lost.

The names being called for, they were recorded as follows: Yeas: Messieurs Casgrain, Howard, Lapointe, Mackenzie (*Vancouver Centre*), Ralston, Raymond.—6. Nays: Messieurs Baker, Chaplin, Coote, Ernst, Fraser (*Cariboo*), Hackett, Irvine, MacMillan (*Saskatoon*), Robinson, Smoke, Spencer, Stanley, White (*London*), White (*Mount Royal*).—14. Messrs. Dorion and Gagnon announced that had they not been paired they would have voted against the amendment.

The motion to amend was again declared passed in the negative.

Consideration of amendment proposed by Mr. Rhodes on May 31 last, viz:—

> That subsection (4) of section twenty-three of Bill 19 be amended by adding thereto the following: Provided that notes in either the English or the French language shall be available as required.

Motion to amend declared carried.

The names being called for they were taken down as follows: Yeas: Messieurs Baker, Casgrain, Chaplin, Coote, Ernst, Fraser (*Cariboo*), Hackett, Howard, Irvine, Lapointe, Mackenzie (*Vancouver Centre*), MacMillan (*Saskatoon*), Ralston, Raymond, Robinson, Smoke, Spencer, Stanley, White (*London*), White (*Mount Royal*).—20. Nays: 0. Messieurs Dorion, Gagnon and Jacobs announced that they were paired and that if they had voted they would have voted in favour of the amendment.

The motion to amend was again declared resolved in the affirmative.

Subsection (5) adopted.

Section 23, as amended, adopted.

Section 35 further considered.

Amendment to subsection (3) proposed this day by Mr. Coote considered, viz:—

> That section thirty-five of Bill 19 be amended by adding to subsection (3) of the said section the following:—
>
> But no person, other than the Minister, shall vote for more than fifty shares.

Motion to amend agreed to.

Subsection (3), as amended, adopted.

The following amendment, proposed by Mr. Hackett, was accepted as a notice of motion and, by leave, was considered forthwith:—

> That section thirty-five of Bill 19 be amended by adding the following to subsection (4) of the said section:—
>
> A trustee holding shares in trust for the beneficial interest of any qualified shareholder shall have one vote for each such share so

registered in his name. In any case the trustee shall inform the scrutineers appointed at the meeting of the name of the British subject and/or the corporation for whom he holds the said shares in trust.

Motion to thus amend lost.

Section 35, as amended, adopted.

On motion of Mr. Rhodes:

Resolved: That Bill 19 be amended by striking therefrom section forty-three of the said Bill.

Motion to thus amend agreed to.

Section 31 further considered.

Subsection (6) adopted.

Section 31 adopted.

Section 5 further considered.

Consideration of amendment therto, proposed this day by Mr. Rhodes, viz:—

That section five of Bill 19 be reconsidered and that it be amended by adding thereto as subsection (2) the following:—

(2) In addition to the Members of the Board as constituted by subsection (1) of this section, the Deputy Minister of Finance or, in case of his absence or incapacity at any time, such other officer of the Department of Finance as the Minister may nominate for the time being, shall be, by virtue of his office or of such nomination, as the case may be, a member of the Board, but shall not have the right to vote.

Motion to thus amend agreed to.

Section 5, as amended, adopted.

Section 8 further considered, and adopted, as amended.

Consideration of the Preamble.

Consideration of amendment thereto, proposed by Mr. Spencer on May 17, last, viz:—

That the preamble of Bill 19 be amended by inserting after the word " Canada " in the second line of the said preamble the words "to make use of the national credit at cost for governmental services and."

Motion to amend lost.

Preamble adopted.

Title carried.

On motion of Mr. Hackett:

Ordered: That Bill 19, An Act to incorporate the Bank of Canada be reported with amendments.

The Committee adjourned to meet on Thursday, June 7, next, at 10.30 a.m.

HOUSE OF COMMONS,
THURSDAY, June 14, 1934.

The Select Standing Committee on Banking and Commerce met this day at 11 a.m.

Mr. R. B. Hanson in the Chair.

Members present: Messieurs Bothwell, Chaplin, Coote, Dorion, Fraser (*Cariboo*), Geary, Hackett, Hanson (*York-Sunbury*), Jacobs, Lapointe, Mackenzie (*Vancouver Centre*), Michaud, Power, Smith (*Cumberland*), Smoke, Spencer, Sullivan, Vallance, White (*London*), White (*Mount Royal*)—20.

After consideration of a Private Bill on the Order Paper of the Committee,

Mr. Hanson read the following, which was submitted as a draft report:—

Your Committee has considered, during the session, inter alia, Bill No. 18, An Act respecting Banks and Banking, which was reported to this House, with amendments, on May 17, last.

At the first meeting of the Committee, on March 6, last, it was moved by Mr. Power, seconded by Mr. Vallance:—

That before proceeding to the consideration clause by clause, of Bill No. 18, the Select Standing Committee on Banking and Commerce inquire into:—

1. The interlocking of directorates as between banks, trust companies, insurance companies and important industrial concerns and the effect of such interlocking directorates on the general financial and economic condition of the country;

2. The general policies adopted by the chartered banks to combat the effects of the depression, and to what extent the said banks are responsible for the drastic defiation from which the country suffered and is still suffering;

3. The circumstances which brought about the enactment of Order in Council, P.C. 2693, of October 27, 1931, permitting the chartered banks to show investment securities in their monthly and annual financial statements at a valuation other than the actual or market value thereof;

4. Relations of the chartered banks to the wheat pools, and the extent to which the guarantees by the Dominion Government to the banks of the said pools' grain market account was utilized for the purpose of speculating in wheat on the Winnipeg or Chicago grain pits;

5. The relationship between the chartered banks or any of them and the Canadian Pacific Railway Company and the circumstances which brought about the guarantee by the Dominion of Canada of a loan of sixty million dollars to the said Railway Company;

6. The relationship between the banks or any of them and the pulp and paper industry and the extent to which the uncontrolled extension of credit brought about over-capitalization and over-expansion and the subsequent disorganization and near bankruptcy of an industry dealing in some of the most valuable of our natural resources.

And for the purposes of obtaining information on the matters and things hereinabove enumerated, witnesses shall be called, including Sir Herbert S. Holt, K.B., President, The Royal Bank of Canada, Sir Charles

B. Gordon, G.B.E., President, Bank of Montreal, and such other bank presidents and directors as the Committee may deem it advisable to summon.

And that counsel learned in the law shall be appointed to assist the Committee in its investigation.

Your Committee decided to accept this as a notice of motion.

It was later resolved that the subject matter of the motion hereinbefore set out be discussed when the cognate sections of Bill 18 would be under consideration and that a sub-committee, to be appointed, should determine the witnesses to be summoned and the order of their appearance before your Committee.

Since its original sitting your Committee held 47 meetings and heard 25 witnesses.

A Copy of the Minutes of Proceedings and Evidence is tabled herewith.

The Minutes of Evidence also contain the submissions of certain witnesses in connection with the consideration of Bill No. 19, An Act to incorporate The Bank of Canada, which was referred to your Committee on March 9, last, and was reported, with amendments, on June 6, instant.

Your Committee recommends that the orders of reference, reports, proceedings and evidence, together with a list of the exhibits, be printed both as an appendix to the Journals of the House and in blue book form, 1,000 copies of the latter form to be printed in the English language and 500 copies in the French language; and that Standing Order 64 be suspended in relation thereto.

On motion of Mr. Hackett:

Resolved: That the report hereinbefore set out be adopted.

Discussion followed.

On motion of Mr. Mackenzie (*Vancouver Centre*):

Resolved: That the following be added to the Report now under discussion:—

That this Committee recommends to the House that during the next session of Parliament a further investigation of the question of National Credit be made by the Select Standing Committee on Banking and Commerce appointed for the session of 1935.

The question being put on the motion thus to amend, it was declared lost.

The names being called for, they were recorded as follows: Yeas: Messieurs Coote, Lapointe, Michaud, Power—4; Nays: Messieurs Chaplin, Dorion, Fraser (*Cariboo*), Hackett, Smoke, Sullivan, White (*London*), White (*Mount Royal*) —8. Messrs. Mackenzie (*Vancouver Centre*) and Spencer announced that had they not been paired, they would have voted in favour of the motion to amend.

The motion to amend was again declared passed in the negative.

On motion of Mr. Coote:

Resolved: That the report under consideration be amended by adding thereto the following:

Your Committee, during the current session, considered the following Bills which have been reported, with amendments, to this House: Bill No. 18, An Act respecting Banks and Banking, and Bill No. 19, An Act to incorporate the Bank of Canada.

Concurrent with the consideration of Bill No. 18, the following matters were inquired into, and witnesses heard thereon:—

1. The interlocking of directorates as between Canadian chartered banks, trust companies and important industrial concerns and the effect of such interlocking of directorates upon the general financial and economic welfare of the country;

2. The general policies adopted by the chartered banks of Canada to combat the effects of the still-existing economic depression and the drastic deflation consequent thereupon;

3. The relationship between the Canadian chartered banks and the Wheat Pools and the Government guarantee of the said Pools' grain market account;

4. The relationship between certain Canadian chartered banks and the Canadian Pacific Railway Company and the guarantee by the Government of Canada of a loan of sixty million dollars by those banks to the said Railway Company;

5. The relationship between the Canadian chartered banks, or some of them, and the pulp and paper industry.

Your Committee sincerely regrets that entirely inadequate consideration was given to some of the items set out above, as the time at the disposal of your Committee was insufficient.

The main impediment, however, to the proper investigation of these matters was the failure of the Committee to avail itself of the leave granted by this House to employ and appoint counsel learned in the law to assist in the inquiry.

Your Committee was asked to consider the relationship of the chartered banks of Canada not only to the pulp and paper industry but also to "other major industries." This request was not considered.

Your Committee, therefore recommends that at the next session of Parliament the Select Standing Committee on Banking and Commerce be empowered to consider the degree to which the extension of credit by the Canadian chartered banks brought about over-capitalization and over-expansion in major Canadian industries and the consequent disorganization in such industries involving the most valuable of Canada's natural resources; and to investigate the role played in that disorganization by the over-zealous salesmanship of *sôi-disant* investment bankers, with power to send for persons, papers and records and with instructions that counsel learned in the law and such other persons as may be designated by the Committee be appointed to assist the said Committee in its inquiry.

Your Committee regrets that it was thought inopportune to hear submissions from J. Maynard Keynes, Esq., of London, England, and others who have given serious thought to those economic and social factors of which a careful and adequate consideration should have preceded the establishment of a central bank in Canada.

Your Committee, therefore, recommends that at the next session of Parliament a Select Special Committee be appointed whose duty it shall be to consider, *inter alia,* the regulation of credit and currency; the control and protection of the external value of the national monetary unity and the basis, if any, which should underlie that unit; the influences which cause fluctuations in the general level of trade, production, prices, and employment and the proper monetary action necessary to mitigate those fluctuations and, generally, the promotion of the economic and financial welfare of the people of the Dominion of Canada, with power to send for persons, papers and records and with instruc-

tions to report from time to time to this House of Commons any recommendations which, if Parliament should so decide, should be referred to the Executive Committee and/or the Board of the Bank of Canada for consideration and such action as, in the premises, might be deemed necessary to attain the objects set out in the preamble of the Act to incorporate the said Bank of Canada.

Discussion followed.

The motion thus to amend was declared lost, on division.

The question of the adoption of the draft report being put, it was agreed to on division and it was

Ordered: That the Committee report accordingly.

On motion of Mr. Mackenzie (*Vancouver Centre*):

Resolved: That this Committee express its cordial thanks to the Chairman for his fairness, ability and courtesy during our recent deliberations. Adopted unanimously.

The Chairman thanked the Committee for its diligent attendance and industry and took " this opportunity " to express his " appreciation " of the " unfailing courtesy, diligence and industry " of the Clerk of the Committee during the " very exhausting " sittings of the Committee. Messieurs Coote, Mackenzie (*Vancouver Centre*) and Sullivan were " pleased to concur heartily in this vote of thanks to the Clerk."

The Committee adjourned to meet on Thursday, June 21, next, at 11 a.m.

T. L. McEVOY,
Clerk of the Committee.

DISCUSSION

House of Commons,
Tuesday, March 13, 1934.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Mr. R. B. Hanson in the Chair.

The Chairman: I have received a great many communications with respect to different clauses of the bill. I have one here, from Colonel Geary, with respect to the position of auditors. As the bill stands now, section 55 (17) prohibits any auditors, who are employed by a bank, from doing any other work for the bank excepting the auditing of the bank by such auditors or their firms. I believe auditors want to be heard on that point. I have also received a communication from a group of bank clerks in western Ontario, complaining about the wages paid by banks to bank clerks. I have received several communications with respect to the alleged exorbitant charges by banks, in defiance of certain clauses of the bill. That is being rectified this year.

Perhaps it would be well to leave communications over until the appropriate clauses are reached, but I thought I ought to make reference to them, in justice to the people who are writing in to me.

Mr. Irvine: May I ask what you are discussing, sir?

The Chairman: Communications.

Mr. Geary: The proposal as made to me was that this section 55 (17) be considered at a date to be named, so that we would suit the convenience of those different people.

The Chairman: Can you have your people here on Thursday?

Mr. Geary: I cannot tell you. I am awaiting a reply; I will get in touch with you on Thursday. I doubt if they can come on Thursday, but I will get in touch with them and let you know.

The Chairman: Suppose we say we shall hear the auditors next Tuesday. That will give them lots of time. We have to make some definite commitments with respect to these matters.

Mr. Geary: I shall have a communication from them on Thursday.

The Chairman: It will stand until Thursday.

Mr. Beynon: You spoke of the communications you had respecting certain sections of the bill. I propose an amendment to section 91 as follows—

The Chairman: Is that the section—

Mr. Beynon: It is the section in regard to restriction of interest. I think it would be well if I gave notice of motion this morning.

The Chairman: I shall call for notices of motion right away. Are there any notices of motion to be filed?

(Notices of motion were filed by Messieurs Rhodes, Casgrain, Beynon, McGibbon, Spencer, Morand, Howard and Irvine. Proposed amendments are set out in minutes of proceedings of to-day's date).

Hon. Mr. Mackenzie: Are you dealing only with notices of motion under bill 18?

The Chairman: I am calling notices under bill 18.

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Mr. COOTE: In view of the fact that the committee is considering an investigation of interlocking directorates, I move that each of the chartered banks be asked to furnish the committee a statement showing the name, occupation and address of each director, and a list of the companies of which he is a partner or director.

The CHAIRMAN: Will you hold that?

Mr. COOTE: I will put the notice in.

The CHAIRMAN: We have not reached that stage yet.

Mr. COOTE: I thought you wanted the notices of motion.

The CHAIRMAN: Gentlemen, Mr. Rhodes has a statement to make to the committee. We have come now to the orders of the day, and I think this is the proper place to hear that statement.

Hon. Mr. RHODES: Mr. Chairman, the motion of Mr. Power refers to a number of subjects, some of which, under the rules of procedure, are beyond the scope of the reference which is bill No. 18, an act respecting banks and banking.

Nevertheless, it is the view of the government that many, if not all, of the subject matters referred to in the resolution, are of such a character as to enable them to be considered under the cognate sections of the bill as and when the same are under review and that any questions not specifically referable to any particular section of the bill could be considered when the title is under consideration.

Speaking for the government, I wish to say that it is our desire that there should be no suggestion of narrowing the inquiry.

With respect to those topics which are within the purview of governmental activity, the government especially welcomes the most thorough investigation.

Mr. CHAIRMAN: Gentlemen, Mr. Power's motion calls for the consideration of the matter therein referred to before the bill is taken up clause by clause. The statement just read by the minister suggests that the subject matters of that resolution shall be taken up under the cognate, or relative, sections of the bill. What is the pleasure of the committee?

Hon. Mr. MACKENZIE (*Vancouver Centre*): Mr. Chairman, I think we are pretty well satisfied with the statement made by the Hon. Minister of Finance. I am afraid, though it is not mentioned, it may have the effect of limiting the full scope of the resolution moved by Mr. Power. I think we could possibly agree, if the committee understood exactly under which section of the bill we are to consider the various sub-clauses of his motion. Take clause 2, dealing with interlocking of directorates. We are asking that interlocking directorates and pulp and paper financing be investigated. If the committee were apprised, before hand, under what section of the bill we could investigate those matters, we would all be satisfied. In other words, I am afraid it might be unconsciously limiting the full scope of the inquiry as mentioned by the minister. Do you follow me?

The CHAIRMAN: Yes.

Hon. Mr. MACKENZIE: I have no objection at all to going on with those subheadings under the proper sections of the bill, if we were sure that we would have full scope to investigate under those sections, and if we were apprised what those sections would be before we disposed of the resolution.

The CHAIRMAN: Ordinarily, any topic which is not relevant to any particular section may be considered under the preamble. There is no preamble to Bill 18, but there is a title, and we can always ring in a discussion or an investigation under consideration of the title. I agree with Mr. Mackenzie that with some of this subject matter it may be difficult to say under what particular section it can be considered and disposed of. But I am sure that we

shall be able to agree, having regard to the statement made by the minister, that the resolution is to be considered as in order. I think we shall be able to agree on some particular relevant section under which each and every one of these matters may be dealt with. I would invite the members of the committee to give some study to that aspect of the problem. For instance, interlocking directorates. There is no trouble about that, because we can deal with that under the clause of the bill relevant to directorates. I have not gone through the bill with a view to arriving at any conclusion in my own mind as to the other clauses under which some of this subject matter may be dealt with, but I have no doubt we can arrive at a conclusion. While I am on my feet, gentlemen, I should like to make this observation: there is no doubt that, under strict parliamentary law, there is a grave question—I will put it that way—as to the jurisdiction of the committee to consider these matters without instruction from the House. Nevertheless, it seems to be the consensus of opinion that we should consider these matters, and I would like to say, in view of the statement of the minister on behalf of the government—without attempting to waive the rules of parliament—that it should be understood that such action on the part of this committee, and the procedure thereunder, is not to be considered as creating a precedent for this committee or any other committee. The idea in making that statement is, that we must do things in an orderly way and not travel outside the purview of our order of reference, because, if we do, there is no knowing where we may end. I would like to have this reference inserted in the minutes for the guidance of those who may be chairmen of the committee in the future, so this discussion is being reported verbatim.

Hon. Mr. MACKENZIE: My suggestion is, Mr. Chairman, that we should have a sub-committee to inform the main committee on our orders of the day, giving us a week's notice, or two days' notice, as to what things are likely to be discussed, say, next Tuesday, or Thursday.

Mr. POWER: Under section 5, which is the first section of the Bill as to which notice of motion has been given, would be the proper place to discuss most of the items mentioned in the motion which I made the other day. There is no preamble to this bill and that is the section which is the most important of the whole bill, and I would suggest that that be the one under which the items which, apparently, have no home anywhere else could be discussed, and since that is the first section to be brought up I will go one step further and say we should discuss this matter now, or as soon as arrangements can be made to bring witnesses.

The CHAIRMAN: It has been suggested that the Inspector General of Banks, Mr. Tompkins, who is here, will give particular study to the subject matter raised by Mr. Mackenzie and now raised by Mr. Power.

Mr. HACKETT: We seem to be jumping about a lot, Mr. Chairman. I will move, that the items referred to in Mr. Power's motion of some days ago be discussed when the cognate sections of the bill are taken up.

The CHAIRMAN: That will regularize the situation. Is it the pleasure of the committee to adopt Mr. Hackett's motion?

Mr. COOTE: Mr. Chairman, if I remember correctly, when the previous revision was being considered, ten years ago, the bankers came here and gave their evidence, and after we had heard the evidence of the bankers;—perhaps I should start off by saying that we did go over the bill,—and after that was done we called a number of witnesses, including quite a number of bank presidents and bank officers.

The CHAIRMAN: Mr. Coote, that was under the Irvine resolution *re* Financial Credit which was sent to the committee at the same time, if you will recall.

Mr. Coote: I believe, perhaps, that is true. I think we had some bankers who were called, perhaps not under that, but in connection with the Bank Act, and, if I remember correctly, in 1913, bankers were here. There was no investigation into credit at that time. The Bank Act, I think, was simply referred to the committee, and these bankers came and gave evidence, and if we are going to hear the evidence that these men can give we should have it before we pass any sections of the Bank Act. There are quite a number, I think, that might be affected by the evidence which the committee can get. That is the difficulty in trying to name specific sections under which we can have these witnesses called or questioned, and it seems to me we will not go very far in our work until we will find a great many sections that we cannot deal with until these men come here, that is, if we are going to have them at all. That is the difficulty I see in connection with the matter as it is now proposed.

Mr. Duff: On a point of order, Mr. Chairman. It seems to me that this discussion is not in order. You stated that, in your opinion. . .

The Chairman: I did not declare it out of order.

Mr. Duff: I know you did not, but I am going to try to get you to declare it out of order. I understood you to say, sir, that the reference of parliament to this committee was not sufficiently broad to cover Mr. Power's resolution, consequently you are suggesting to this committee that, without considering it a precedent, we should go on as if we had the authority of parliament. I, therefore, say that this discussion is out of order and that the safe and sane thing to do is to go back to the House and ask for a broader reference.

The Chairman: Does anybody else want to speak on a point of order?

Hon. Mr. Euler: Although I have no objection to discussion taking place in the manner suggested by yourself, Mr. Chairman, without prejudice, might it not be possible, if we proceed along these lines without really having the power from the House so to do, that some of the witnesses who will be called to give evidence might be inclined to give you no evidence.

Hon. Mr. Mackenzie: I disagree with your interpretation, Mr. Chairman, and I more or less disagree with Mr. Duff's interpretation of your interpretation. This is a standing committee of the House of Commons, entitled to investigate every possible single phase of banking in the Dominion of Canada, under a general investigation which we have every ten years into banking in the Dominion of Canada, and if we can't do that then, I suggest, we might as well adjourn and discontinue everything.

Mr. Duff: Mr. Chairman, Mr. Mackenzie did not at all answer what I said in his reply. He started out with a regular skirl but wound up by a very weak note on the pipes. All I said was in connection with your suggestion to the committee, that if this committee did not have power to go on with Mr. Power's resolution then we had better go back to parliament and ask for a further reference.

The Chairman: I have not made any ruling.

Mr. Duff: If it is your opinion that we have the power, then I am quite satisfied that we should go on. All I went on was the fact that I understood you to say it was quite possible this committee did not have the necessary power, under the present order of reference, to consider some of the items at least in the Power resolution.

The Chairman: I have not so ruled, but I do want to put in a saving clause in the minutes, for the guidance of future committees.

Mr. Lawson: If I understand correctly your remark it was to this effect, that as chairman of the committee you were proposing to proceed with Mr. Power's resolution, although you might have some doubt in your mind as to

the jurisdiction of this committee. Many very eminent judges have delivered judgment in which they have expressed some doubt, but nevertheless on stated grounds have given judgment, and it seems to me, with the question of jurisdiction of this committee, we are simply fighting shadows. As long as you do not rule that we have no jurisdiction, let us go on until we get to some specific point, then it will be time enough to consider whether or not we should go back to the House. With respect to the motion moved by Mr. Hackett, I am in accord with his resolution; I think we might very easily advance it at this time. It seems to me fairly clear that Item No. 1 in Mr. Power's resolution comes up under the section of the Bill which deals with the directorate of the bank and bank directors. I am going to omit item No. 2 for the moment. Paragraph No. 3, in the Power resolution, seems to come clearly within the sections whereunder the banks are required to make certain returns showing assets and the basis of valuation of those assets. Items 4 and 5, to my mind, clearly come under the sections which authorize the bank to take security, collateral or otherwise. Now, that leaves two items in abeyance, clause 2 and clause 6 of Mr. Power's resolution. Clause 2 is a very wide and broad one. Item 6 is more specific. Both of those can be considered under the title of the Bill, and I suggest that the sixth relates to a specific matter and the second to a general, and when we come to those two items, under the title of the Bill, we proceed with paragraph 6 first, because there we are dealing specifically with the question of credit as extended by the bank. If Mr. Hackett would include that in his motion, or, if it meets with the view of the committee, I will move to so amend as to the method in which we are going to consider the different items under Mr. Power's resolution.

Mr. Power: I would suggest that Mr. Hackett's motion be amended something to this effect, that a sub-committee be appointed to collaborate with the chairman and notify the committee under which sections of Bill 18 the various clauses of the Power resolution shall be discussed.

The Chairman: I was going to suggest a resolution of that character. If you pass on the principle of Mr. Hackett's resolution, then appoint a special committee to deal not only with that but with the question of considering what witnesses might be called—

Mr. Power: And with the question of counsel.

The Chairman: Well, they might make a recommendation on that too, although the minister thinks that we could defer that question for the moment.

Mr. Power: I would suggest to the chairman, in all deference, that it will be impossible for us to carry on anything like a proper inquiry unless we have counsel.

The Chairman: With all those lawyers here?

Mr. Power: Yes, with all those lawyers here and some of them good ones, like yourself, Mr. Chairman; but unless they give their entire time to things of this kind it will be impossible for us to get on.

The Chairman: Well, the suggestion is worthy of consideration. Mr. Hackett, what do you say about Mr. Lawson's suggestion to enlarge your motion so as to take in the subject matter of Mr. Power's resolution?

Mr. Lawson: If you are going to appoint a small committee, I am willing to withdraw my motion.

Mr. Hackett: My motion dealt with the principle, but if you wish to set up a committee to deal with the mechanics—to deal with the order of procedure—as to what witnesses are to be called, and so on, I haven't any objection, but it struck me that the principle, as distinct from the details, was embodied in my original motion.

The CHAIRMAN: I agree with that statement. Would it not be well, gentlemen, to pass the Hackett resolution now and then pass a resolution setting up a committee to deal with the mechanics?

Mr. IRVINE: There is only one point that I would like to raise, that it will be difficult to co-relate certain sections of the Power resolution to any clause of the Bank Act. There is no provision in the Hackett motion to deal with that.

The CHAIRMAN: That will come under the second motion that will be offered.

Mr. IRVINE: As long as it is not precluded in the original.

The CHAIRMAN: Can we have Mr. Hackett's resolution read?

Mr. HACKETT: I merely said that the subject matter of Mr. Power's resolution be discussed under the cognate sections of the Bill—

The CHAIRMAN: As and when they are taken up. What is the wish of the committee on that resolution?

Hon. Mr. RALSTON: I wonder if Mr. Hackett would not accept the suggestion that has been made, that the matter be referred to a sub-committee because, as has been said, there is some question as to whether some of the sections can be co-related. The suggestion has been made that this might be broad enough to cover everything. Sections 5 and 6 of the bill are the sections which renew the charters of the banks, and it seems to me it is competent for any committee to decide whether the charter of a bank shall be renewed, by inquiring into the matters which are referred to in Mr. Power's resolution. Might I suggest, along the line of Mr. Power's resolution, a resolution which I have just scribbled off here, that the matter of procedure in conducting the inquiries covered by Mr. Power's resolution, including the appointment of counsel, be referred to a sub-committee, to be appointed by the chairman, for recommendation and report.

The CHAIRMAN: The Hackett resolution has been suggested in view of the statement made by the minister, and that statement varies from Mr. Power's notice of motion, inasmuch as Mr. Power suggested therein that these subject matters to which he refers shall be dealt with before the bill itself is dealt with. Mr. Hackett's resolution is, that the subject matters be dealt with as we go through the bill. There is a difference in principle there. My own idea is, that if we deal with the Power resolution and the topics named therein, we would be a long time getting to the bill proper, and I think it is in the interests of all concerned that we should get on with the work of the committee. I would suggest this to the committee, that we adopt Mr. Hackett's resolution, or an enlargement of it, then we adopt Col. Ralston's resolution for the setting up of a sub-committee to look after the mechanics of the thing, the orderly transaction of the business of the committee, and the appointment of counsel, if necessary to be appointed. If we agree on those two things, then I think we will get on very well.

Mr. POWER: The only objection I have to Mr. Hackett's motion is, that he states definitely that the items in the motion which I made shall be referred to the cognate subjects, and there seems to be a pretty general opinion that there are no cognate clauses to, at least two of the items in my resolution, and that would immediately rule them out.

The CHAIRMAN: I don't think there is any intention of doing that.

Mr. COOTE: In regard to Mr. Lawson's suggestion that they come under the title of the Bill, I think the title of the Bill is the thing which is discussed last. If we pass the whole Bill it seems to me rather absurd that we should then hear some of these discussions on very vital matters.

The CHAIRMAN: Cannot you leave all that to the proposed sub-committee; I think we can do it very well.

Hon. Mr. RALSTON: Just one further suggestion—as to the reason for suggesting my motion as an amendment to Mr. Hackett's resolution—and that is that if you wait until the cognate sections of the Bill come up, one may be section 5, another may be section 6, and another may be section 72; you will have witnesses coming and going all the time, whereas it seems to me that the committee itself had better go over the Bill and try to find out from the sections of it in what place the most of these investigations can be made, not only for the convenience of witnesses but for the convenience of the committee as well. Therefore, it seems to me that, perhaps at this stage, we should not actually adopt that principle, but the sub-committee would have in mind the discussion which has taken place here this morning and endeavour, as far as possible, to fit in the procedure which they will recommend to meet the suggestion made by Mr. Hackett, and by yourself, and by the Minister of Finance.

The CHAIRMAN: Well, Mr. Hackett, would you draft a resolution which would affirm the principle of your present resolution and, perhaps, incorporate Col. Ralston's suggestion. I would ask these two gentlemen to get together and draft one resolution which would cover the whole thing. I think they both mean the same thing, only reaching it by different routes.

Hon. Mr. RALSTON: I have no idea of dividing the committee in a matter of this kind.

The CHAIRMAN: I am not suggesting that, Col. Ralston. What I am suggesting is such action as will promote not only unity but expedition in the transaction of the business of the committee. I think we are all agreed on the principles which should govern us. We want to get on with the work and we want to get on with it in an orderly manner.

Hon. Mr. RALSTON: I thought, perhaps, this morning we should not absolutely formally and officially adopt that principle.

The CHAIRMAN: As I said before, the only thing I have in mind is this: Mr. Power has asked to have all this discussion, and evidence, taken before the bill was considered. The minister does not agree with that suggestion, but suggests that we ought to go on with the bill and take up these matters as and when it may be done properly and orderly.

Mr. MCGIBBON: Mr. Chairman, why not appoint a small committee, this morning, to consider this and report, at our next meeting?

The CHAIRMAN: To consider the principle involved? I think we ought to decide the principle here; we can leave mechanics to a sub-committee.

Mr. MCGIBBON: If you appoint a sub-committee, Mr. Chairman, they might be able to bring in a satisfactory report, and in the meantime we can proceed with the noncontentious sections of the bill. They might be able to report early next week.

The CHAIRMAN: I would hope they might be able to report by Thursday.

Mr. JACOBS: I would like to inquire from Mr. Power the reason why he limits this proposed investigation to the pulp and paper industry. I do not exactly see why pulp and paper should be selected and other industries excluded. It seems to me it would be better if he struck out these words at the beginning of paragraph 6 "The relationship between the banks or any of them and the pulp and paper industry" and make it read "The relationship between the banks or any of them. . . ., and the extent to which uncontrolled extension of credit brought about over-capitalization and over-expansion, and the subsequent disorganization and near bankruptcy of an industry or industries dealing in some of the most valuable of our natural resources." It seems to me that if that were done we could go into the thing a little more fully.

Mr. BEYNON: Mr. Chairman, I submit that is out of order. There is an amendment, by Mr. Hackett, to Mr. Power's motion; there is a motion of his before the committee and there is an amendment to that proposed by Mr. Ralston. Surely we cannot go on with a third amendment.

The CHAIRMAN: No, we cannot. Mr. Jacobs, would you put your motion in the form of a notice.

Mr. JACOBS: Yes, I will do that, Mr. Chairman.

Mr. COOTE: In regard to the statement that you made as to the difference of opinion or the difference in procedure which was suggested by the minister, I would like to suggest to the committee that we are now following the minister's suggestion. We have gone over the Act clause by clause. I think we have started over it the second time. We have found a good many clauses which, perhaps, we would like to stand, and I am sure the great majority of clauses ought to stand until the investigation—or rather until the witnesses are heard. I am speaking only for myself. I have no objection to continuing, going through the Act, but there are a great many sections which will have to stand, I think, until the witnesses are heard, so that I think we are really adopting the minister's suggestion.

The CHAIRMAN: I think we ought to regularize the procedure. Mr. Hackett has his motion ready, and I am informed by the clerk that there are still forty odd sections of the bill on which no notices of motion have been filed.

Mr. IRVINE: There might be if we had the witnesses.

Mr. HACKETT: The motion is:

"That the subject matter of the motion proposed on March 6 by Mr. Power be discussed when cognate sections, if any, of Bill 18 shall be under discussion, and that a sub-committee to be named by the Chairman determine what witnesses are to be heard, the order in which witnesses are to be called and the order in which the different paragraphs of Mr. Power's resolution shall be discussed and to report from time to time."

Mr. POWER: That would rule out the two sections indicated by Mr. Lawson. Mr. Hackett's resolution says the discussion is to take place under the cognate sections, if any. Are these other two sections going to be thrown in the discard?

Mr. HACKETT: No, they are included in the next paragraphs, I think. I have said that a sub-committee be selected to determine the order in which the witnesses will be called and the special matters in your resolution discussed.

The CHAIRMAN: That is covered, I think, Mr. Power.

Mr. HACKETT: There is no intention of sidestepping it.

Mr. DUFF: Mr. Chairman, do I understand you as saying that this committee has power to deal with it?

The CHAIRMAN: Yes.

Mr. DUFF: On the matter of Mr. Power's resolution. I would like to have a ruling, because if we have not the power then we are out of order.

The CHAIRMAN: I have some doubt but I am not ruling it out of order.

Hon. Mr. EULER: Why not make a decision now?

Mr. IRVINE: If it is not out of order, it is not out of order.

Mr. COOTE: Are you discussing now, Mr. Power's resolution as a point of order?

The CHAIRMAN: Under the heading of the orders of the day, and among other things Mr. Power's resolution, the minister's statement, and Mr. Hackett's resolution. We are really on Mr. Hackett's resolution; let us deal with that.

Mr. COOTE: I just want to draw the attention of the committee to the fact that I have a notice of motion and amendment to Mr. Power's resolution; and before it is finally decided on, I want to move this amendment.

The CHAIRMAN: We are not dealing with Mr. Power's resolution; we are simply indicating the method in which it may be dealt with.

Hon. Mr. LAPOINTE: I understand, Mr. Chairman, that the Power resolution is accepted by everybody.

The CHAIRMAN: Yes, in principle.

Hon. Mr. LAPOINTE: We are discussing only the method of proceeding with the resolution. The resolution calls for investigation and the hearing of witnesses. In doing that we start from the principle that the resolution is accepted.

Mr. IRVINE: If Mr. Hackett includes in his motion that any clause or any parts of the Power resolution which cannot be specifically related to definite clauses of the act, shall be discussed under section 5, then I think we can proceed.

The CHAIRMAN: I do not think we ought to tie ourselves in respect to those particular clauses to any section; that will be dealt with by the subcommittee. That is the only way we can get on in an orderly fashion. Let us put through the Hackett resolution.

Resolution carried—on division.

The CHAIRMAN: Is it the wish of the committee that the subcommittee be appointed by the chair?

Hon. Mr. LAPOINTE: Yes.

The CHAIRMAN: I do not think I should be on the committee.

Mr. BOWMAN: You are ex-officio a member.

Hon. Mr. EULER: I move that you, Mr. Chairman, Mr. Hackett and Mr. Ralston be appointed a subcommittee.

The CHAIRMAN: That leaves out our friends " in the far corner." I would suggest a committee of five.

Mr. COOTE: Leave it to the Chairman.

The CHAIRMAN: I will name a committee of five now: Mr. Hackett, Mr. Lawson, Mr. Power, Mr. Coote, and myself. Is that agreeable to the committee?

Carried—on motion of Mr. Bowman.

Mr. SPENCER: Before we go on with the next order of business, may I remind you that Mr. Coote just attempted to mention something with respect to the amendment he had to Mr. Power's resolution. Will that amendment be taken into consideration by the subcommittee?

The CHAIRMAN: I would think that should go to the subcommittee with the Power resolution.

Mr. SPENCER: Is that the will of the committee?

Hon. Mr. LAPOINTE: We should have it as a notice of motion.

The CHAIRMAN: If you will read Mr. Coote's resolution, on page 4 of this pamphlet, you will observe that it is somewhat similar to Mr. Jacobs' suggested resolution. Mr. Jacobs may put his in the form of a notice of motion. I think the whole thing ought to go to the subcommittee. It is understood then, that both of these will go to the subcommittee.

Gentlemen, having straightened out the order of business, we have before us the bill. I was going to suggest that we discuss Mr. Mackenzie's notice of motion this morning, but, in view of what has been said to-day with respect to some of these matters in the Power resolution, it might not be advisable to proceed with that. In order to make some progress, could we not take up some of the clauses which have not been carried?

(The Committee then resumed consideration of Bill No. 18, An Act respecting Banks and Banking.)

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
March 20, 1934.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Mr. Hanson in the Chair.

The CHAIRMAN: I see we have a quorum so we shall proceed. I suggest that we shorten the routine by filing any new notices of motion with the Clerk, without having them read.

Mr. POWER: Before you go on with that, Mr. Chairman, I should like to make this observation: as I understand it, we now have authority from the House to be provided with counsel.

The CHAIRMAN: Yes.

Mr. POWER: I therefore move that counsel be appointed to assist the committee in the remainder of its inquiries.

The CHAIRMAN: Would that not be out of order in reference to this particular matter?

Mr. POWER: I am speaking of the remainder of the inquiry in the motion under my name.

The CHAIRMAN: Would you be good enough to postpone that until we get through with item No. 5 of your original motion.

Mr. POWER: Why not settle it now?

The CHAIRMAN: Because we have witnesses here from a long distance whom I should like to have heard.

Mr. POWER: It won't take very long to put this motion.

The CHAIRMAN: I would ask you to withdraw the motion, at the present time, in order that we may get on with this particular aspect of our work. I will promise to take it up immediately after this matter is disposed of.

Mr. POWER: And we shall dispose of it before we go into the question of any further items, before we call witnesses in connection with any other items.

The CHAIRMAN: I think we can give you that undertaking. I do not know of any other witnesses under this heading. Have you any in mind?

Mr. POWER: I do not know, at the present time.

The CHAIRMAN: I think it is only fair that we should dispose of this question immediately after we have disposed of item No. 5.

Mr. POWER: We can dispose of the question of counsel then?

The CHAIRMAN: Yes. Before Mr. Power spoke I was about to remark that we are taking up item No. 5 of the Power resolution, namely, "the relationship between the chartered banks, or any of them, and the Canadian Pacific Railway, and the circumstances which brought about the guarantee by the government of Canada of the loan of $60,000,000 to the railway company." In order to facilitate that there was laid on the table, and it is now printed in the Notices of Motion, P. C. 2490, 29th November, 1930. I am filing, now, a certified copy with the Clerk. There was also laid on the table of the House of Commons, yesterday, sessional papers No. 150 D and 150 E, on the motion of Mr. Raymond. These papers contain the correspondence in the first place between the government and the Canadian Pacific Railway and the government

and the banks. Copies of this correspondence have been mimeographed and are available to the members of the committee. I am filing now, with the Clerk, a copy of those sessional papers.

Gentlemen, we have with us to-day Mr. E. W. Beatty, K.C., president of the Canadian Pacific Railway, and Mr. Jackson Dodds, general manager of the Bank of Montreal. I suggest that we hear Mr. Beatty first. The Prime Minister will be available at some time during the day, but he is unable to come between twelve and one.

Mr. E. W. BEATTY called.

The CHAIRMAN: Gentlemen, I suggest that Mr. Beatty be allowed to make his statement in the first place without interruption, and then that he submit himself to cross-examination at the hands of any member of the committee.

Mr. IRVINE: He has not been sworn?

WITNESS: In explanation of this transaction which is on your agenda, I prepared a short statement which shows in chronological order the steps which the company and the banks took, and with your permission I should like to read it.

The Bank of Montreal has been the principal banker of the company since the organization of the latter in 1881. Up to three years ago their relationship was almost entirely that of depositor and depository, though on some occasions the bank participated in the underwriting of securities issued by the company.

For the twenty-five years ending December 31, 1931, the average daily balance at the credit of the company amounted to $24,885,500, on which the bank allowed interest at varying rates averaging 2·73 per cent per annum.

Prior to 1931 the company procured money for capital purposes by the sale to the public of capital stock, debenture stock, collateral trust bonds and other long term securities. The practice was to pay for extensions, additions and improvements out of current cash, and on completion of the work to reimburse the treasury to the extent considered expedient by a public issue of securities.

In that year the depression began to be felt, the surplus earnings of the year falling to $14,584,471 from $39,131,716 in 1930 and $42,227,760 in 1929. Its commitments for extensions and improvements during the year were heavy, and, being unable, on account of the unfavourable condition of the security market, to provide for them in the usual way, the company obtained from the Bank of Montreal two advances for a period of two years one for $5,000,000 and the other of $15,000,000.

The situation in May, 1933, was that these obligations were maturing on June 22 and September 30; a loan of $10,000,000 from the Chase National Bank of New York was to mature on July 15, and loans from various other United States Banks aggregating $2,300,000 later in the year. To provide for these and for the principal of long term securities held by the public, maturing in 1933 and 1934, the company applied to a group of Canadian Banks for a loan of $60,000,000, to be secured by the pledge of $100,000,000 Consolidated Debenture stock, for a term of five years, it being considered that at the expiration of that period, or sooner, the security market would have improved to such an extent that the loan could be retired by the sale of the Consolidated Debenture stock in the market.

The market price in New York of Consolidated Debenture stock ranged at that time from 58 to 67. Since that time the value of the security for the loan of $60,000,000 is now approximately $80,000,000. Owing however, to the large amount involved, the period for which it was desired, and the unsteady condition of the market, the banks required additional security, and the company thereupon undertook to apply to the Dominion government for a guarantee.

[Mr. E. W. Beatty]

After some preliminary conversations the matter was formally laid before the Prime Minister on May 30 by the President of the Bank of Montreal and myself, at which time I submitted to him a confidential memo to which I will presently refer. At these interviews the requirements of the company, the nature of the security and conditions in financial centres were discussed at length. It being suggested by the Prime Minister that, notwithstanding our advices from London, it was possible that some part at least of the loan might be obtained there, I undertook to personally canvass the situation from that point of view, and to the extent of my success to reduce the amount of the bank loans.

On May 31 the Rt. Hon. Mr. Bennett notified the banks of the government's approval. Owing to his immediate departure for England the requisite order-in-council stood over until his return, but the banks agreed to make the advances on the assurance of the notice given them. The terms of the loan provided for its being advanced in two instalments, one of $35,000,000 on June 22, 1933, and the other of $25,000,000 on December 1, 1933, with the privilege to the company of paying at any time before maturity, ratably among the banks, the whole or any part of the principal, on giving not less than sixty days' notice in writing.

I went to England in July and the information I then obtained only confirmed our previous advices. I was advised as well in official circles as in financial circles that the time was inopportune for an issue, on the ground that the refunding program of the Imperial government and the probable requirements of Dominion governments were sufficient for the market.

I may say here, gentlemen, that when I reached England I had Mr. E. R. Peacock, one of our London directors, interview Mr. Montagu Norman of the Bank of England, on whose recommendation, we were advised, the Exchequer in England acted, and asked him if it were possible for us to get the consent of the authorities in Great Britain to make an issue in London at that time. Mr. Norman subsequently confirmed what he said to Mr. Peacock to me in an interview I had with him just prior to leaving London. He told me that while they had the greatest sympathy for the Canadian Pacific Railway and would certainly open their markets to them as soon as they could, they felt that for the time being the government of Canada had first claim, and that they should be the only ones allowed to participate in public issues in London.

Now, I have referred to a confidential memorandum which I handed to the Prime Minister at the last interview I had with him, and which was really a summary of the information I had given him before. This memorandum was handed back to me later, because it was marked confidential, and it is as follows:

For the purpose of refunding obligations maturing in 1933 and 1934, and providing for capital expenditures, the company desires to borrow the sum of $60,000,000, to be advanced in instalments of $35,000,000 on or before June 20, 1933, and $25,000,000 on or before December 1, 1933, or as may be arranged between the company and the Canadian banks. The maturing obligations of the company during the period in question are as follows:

Bank loans	$32,300,000
Collateral trust bonds	12,000,000
Northern Alberta Railways (instalment on purchase price due June 1-33	2,500,000
Equipment obligations	7,900,000
Manitoba Southwestern railway bonds	2,544,000
	$57,244,000
Payable in U.S. funds	$30,244,000
Payable in Canadian funds	27,000,000

It is impossible under existing conditions to obtain so large a sum from any single source or through the medium of a public issue of securities, but it could be arranged through the principal banks of Canada acting together. In these

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circumstances, the company proposes a loan of the amount stated from seven of the Canadian banks in the proportions hereunder mentioned. Now there then follows a division between the banks, which is substantially the same as that in the order-in-council with two slight changes. The first is the Bank of Montreal took a little more than their proportion, because one other bank wanted a definite and smaller participation, and another bank, the Bank of Nova Scotia, wanted their share arranged on another division of assets.

Bank of Commerce	26.31%	10,524,000
Dominion Bank	7.02%	2,808,000
Banque Canadienne Nationale	6.14%	2,456,000
Bank of Toronto	6.58%	2,632,000
Bank of Nova Scotia	16.67%	6,668,000
Imperial Bank	6.58%	2,632,000
Royal Bank	30.70%	12,280,000
		$40,000,000
Bank of Montreal		20,000,000
		$60,000,000

In view of the fact that the loan is a capital loan and not self-liquidating in the ordinary accepance of that term, the company's principal banker has advised it that it will be necessary to secure the guarantee of the government as to interest payments and repayment of principal. Owing to the public nature of the company's undertaking, and the place which it occupies in the commercial life of the country, it is believed that such an application is justified by considerations of public interest and national welfare. It will be recalled that in the early days of the company similar assistance was applied for and given, with results which, it will be conceded, amply justified the transaction from the point of view I have suggested.

While the undermentioned considerations are no doubt well known to the government, its attention may be drawn again to the substantial contribution which the company has made over a long period of years to the settlement and development of Canada, involving as it did the expenditure of over one hundred million dollars in colonization and land settlement endeavours, and, in recent years of approximately nineteen million dollars in works undertaken in order to relieve unemployment, indeed, the activities of the company have been so closely interwoven with Canadian development that it can be said they are interdependent. All of the company's contractual obligations to the Dominion have been fully satisfied and in no single instance has default occurred.

If the application for guarantee meets with the favour of the government, it is suggested that to allow for possible slow recovery more normal conditions of business, the term of the loan be five years and the rate of interest five per cent.

As security, the company offers to pledge its Consolidated debenture stock in the ratio of $100 principal amount of the stock to each $66 principal amount of the loan—that was changed to $60.

The consolidated debenture stock is a perpetual obligation to the company, bearing interest at four per cent per annum, payable in gold coin half-yearly on January 1 and July 1.

By statute the consolidated debenture stock issuable, is limited to an amount which, together with other secured obligations of the company shall not exceed at any time one-half its capital investment. By statute also, it is constituted a first charge on the whole undertaking and property of the company, including the rights of the company in the several railways held by it under lease (except subsidy lands), subject to the payment of working expenses and to the priorities created by charges existing at the time of issue. The priorities consist of first mortgage bonds of the company aggregating in principal amount

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$3,650,000 secured on what is known as The Algoma branch on which the annual interest charge is $182,500, and the annual rentals, to which the company's rights in railways held under lease are subject, amount to $3,704,360.

Consolidated debenture stock has thus priority over $137,256,921 preference stock and $335,000,000 ordinary stock.

The assets of the company exceed in value its total liabilities, including the preference and ordinary stock, by more than $354,000,000, and excluding preference and ordinary stock, by more than $826,000,000.

The income of the company over the five years ended December 31, 1932, in relation to fixed charges, is shown below:

Year ended Dec. 31	Net Income Available for Fixed Charges	Fixed Charges	Times Fixed Charges earned
1928	$64,372,135	$15,308,698	4.20
1929	58,376,764	16,149,003	3.61
1930	58,291,581	19,159,865	3.04
1931	36,634,836	22,050,364	1.66
1932	24,627,410	23,619,529	1.04

Dividends at the rate of four per cent per annum have been paid on preference stock without interruption since 1893 with the exception of 1932, when the rate of two per cent was paid. Dividends were paid on the ordinary stock without interruption since 1882 down to 1931; for the years 1911 to 1930 inclusive the rate was ten per cent per annum, and for 1931 five per cent per annum.

As at December 31, 1932, the company's investment in railways, steamships, hotels and telegraphs was in excess of $1,167,065,340. In addition, it has assets in lands, mines and miscellaneous properties and securities which are carried on the balance sheet at $89,891,566. As at December 31, 1932, its net current assets were $38,499,887.

In view of the use for which the moneys are required, the loans will involve only a slight increase in the company's fixed charges.

The company has turned to the government only as a last resort and after having explored the possibilities of securing the requisite loan from other sources. It is the unanimous view of its directors and financial advisers that no other source is available save the Canadian banks acting together with the assistance of the government through guarantee.

It should be pointed out, too, that in the very remote contingency that the government should ever be called upon to implement its guarantee, the government would be adequately protected in that it would secure 18 per cent of the then outstanding consolidated debenture stock of the company at a cost to it of $60,000,000 and this investment would be supported by assets exceeding the company's liabilities by over $800,000,000 as above stated.

This was the memorandum I handed to the Prime Minister, and which I understand, though no doubt he will speak for himself, he read and discussed fully with the members of the government. It was handed to Mr. Bennett on the 30th of May.

Now, if the members of the committee want reference to our authorities in the matter of issuing securities, they will find it in 20-23 George V, chapter 5th, assented to on the 3rd of May, 1932, which the company applied for and was granted by the House of Commons and the Senate; the right to issue consolidated debenture stock against the property assets of the company was given there. For your information, and in the event—I don't suppose you will require them—of your needing them, I have brought with me a copy of the resolution of our directors, authorizing this transaction, dated Monday, 12th June, 1933, and copies of the notes which the company gave to the individual banks. I do not think there is anything I need to add to that statement at the moment.

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By Mr. Geary:

Q. When do these notes mature?—A. June 22nd, 1937, and December 1, 1937.

Mr. SPENCER: Will this be put in the record, Mr. Chairman?

The CHAIRMAN: He has read it into the record. Are you speaking of the resolution?

WITNESS: You mean the resolution and the notes?

Mr. SPENCER: The ones you have not read.

WITNESS: If you desire them read, I shall do so.

The CHAIRMAN: We will assume the corporate proceedings were all right? They can be filed with the clerk and made available. Gentlemen, if Mr. Beatty has completed his statement, I am sure he would be glad to anwser any questions that members of the committee might ask.

By Mr. Power:

Q. I think perhaps, in order to make it clear to myself, if not to the other members of the committee, I should like to go over for a moment with Mr. Beatty the capital set-up of the Canadian Pacific Railway. As I understand it, your ordinary common shares are issued to the extent of $335,000,000?—A. Yes.

Q. You also have preference shares issued to the extent of something like $137,000,000?—A. Yes.

Q. And debenture stock, called collateral debenture stock——A. No, perpetual consolidated.

Q. Debenture stock?—A. Yes.

Q. Four per cent?—A. Yes.

Q. All four per cent, is it?—A. Yes.

Q. Issued to the extent of something like $457,000,000?—A. Well, it all depends on which year you are taking.

Q. Up to December, 1932?—A. 1932? I will give you the exact figure. The debenture stock issued at the end of 1932 was $455,911,000, less collateral; that is, the stock deposited to secure collateral trust bonds of $164,500,000, leaving a net amount of debenture stock in the hands of the public of $291,400,000.

Q. Of which $291,000,000 some $65,000,000, if my memory is good, is payable in United States currency?—A. Yes.

Q. And the remainder, some £46,000 payable in sterling?—A. £46,000,000. If you would like me to give a division of our holdings, I would be glad to.

Q. Yes.—A. In Great Britain, $160,967,000 of our ordinary stock is held, preference stock $134,278,000—I am leaving out the odd figures at the end—debenture stock $226,411,000, bonds, these are the Algoma bonds I spoke of, $3,923,000, or a total of $525,580,000 in Great Britain, or 53·3 per cent of the total. In the United States, ordinary stock is held to the extent of $92,293,000, preference stock $796,000, debenture stock $65,000,000, bonds $60,000,000—those are collateral trust bonds—equipment obligations $37,435,000, a total of $255,524,000 or 25·92 per cent of the total. In Canada ordinary stock is held to the extent of $61,841,000, preference stock $631,000, note certificates secured on land payments $21,179,000, bank loans $60,000,000, bonds $39,500,000, a total of $183,151,000, or 18·58 per cent. In other countries ordinary stock and preference stock is held to the value of $21,450,000, or 2·81 per cent. That is, as at the end of last year, Mr. Power.

Q. You have a system of financing, whereby, if I understand it, you deposit with trustees a certain amount of this debenture stock and issue bonds against it?—A. We do that in Canada and the United States. It is not a practice that is general in England?

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Q. I beg your pardon?—A. It is not done in England.

Q. In any case you have something like $165,000,000 worth of your debenture stock which is pledged at the present time to secure an issue of how much of what is called gold bonds?—A. Well, it is a little more than that at the present time, if you include the $60,000,000 and the collateral.

Q. I will come to the $60,000,000 in a moment. What is the issue of gold bonds against this $165,000,000 of collateral trust?—A. Well, they are of varying issues. At the end of the year you have spoken of, we have a ten-year collateral due in Canada 1934, $12,000,000 which will be paid next month and which will release $15,000,000 of collateral debenture stock. We have 20-year 4½ collateral trust gold bonds due in 1946 of $20,000,000. We have 25-year 5 per cent collateral trust bonds due in 1954 of $30,000,000, and 30-year 4½ of $25,000,000 due in 1960. And then we have convertible 10-year 6 per cent collateral trust bonds due in 1942 of $12,500,000, which is in addition to the notes that I spoke of secured on our land payments, and in addition to short term notes and equipment obligations.

Q. Besides that you have something like $38,000,000 in bonds, have you not, created prior to 1932 and held against something like 1,600 miles of railway?—A. You are referring, Mr. Power, to the old bonds of the Algoma branch first mortgage bonds, the principal of which is $3,650,000.

Q. You also have equipment bonds, have you not?—A. Yes, equipment obligations.

Q. To the extent of how much?—A. Well, at the end of the year I mention, it was $41,850,000 net.

Q. These are payable in instalments?—A. Yes.

Q. As a rule half yearly, are they not?—A. Yes.

Q. Now, it was to meet some of the maturities of these equipment bonds that you required the loan of $60,000,000?—A. Yes.

Q. I have here, tabled yesterday, a copy of a statement signed by Mr. E. E. Lloyd, vice-president and treasurer of the Canadian Pacific Railway Company, page 6, sessional paper 150 E, that is of the documents filed here yesterday showing the obligations of the Canadian Pacific Railway to be retired out of a loan from the Canadian banks of $60,000,000, bearing itnerest at 5 per cent per annum, to be secured by pledge of the company's four per cent consolidated debenture stock, aggregating in principal amount $100,000,000, and by Dominion Government guarantee of principal and interest. I wonder, Mr. Chairman, if a copy of this letter could be printed in the minutes, or shall I read it? Perhaps I had better read it. It shows that the obligations of the company to be met out of this $60,000,000 are divided into three categories first, bank loans amounting to $7,500,000, rate of interest 5 per cent payable in United States currency, June 22, 1933; next $7,500,000, 5 per cent interest payable in Canadian currency, date of maturity June 22, 1933. I don't think I need read all this.

The CHAIRMAN: I think we could put the letter in evidence. It is the letter dated 25th September, 1933, from Mr. E. E. Lloyd, vice-president and treasurer, Canadian Pacific Railway Company:—

CANADIAN PACIFIC RAILWAY COMPANY

MONTREAL, September 25, 1933.

Statement showing obligations of the Canadian Pacific Railway Company, to be retired out of a loan from Canadian banks of $60,000,000, bearing interest at five per cent per annum, to be secured by pledge of the company's four per cent consolidated debenture stock, aggregating in principal amount $100,000,000, and by Dominion Government guarantee of principal and interest.

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BANK LOANS

Principal amount	Rate of interest	Currency in which payable	Date of maturity
$	%		
7,500,000 00	5	United States	June 22nd, 1933
7,500,000 00	5	Canadian	June 22nd, 1933
500,000 00	5	United States	July 1st, 1933
10,000,000 00	5½	United States	July 15th, 1933
1,000,000 00	5	United States	August 29th, 1933
5,000,000 00	5	Canadian	September 27th, 1933
800,000 00	5	United States	November 1st, 1933
BONDS			
12,000,000 00	5	Canadian	April 15th, 1934
2,544,000 00	5	United States or Sterling	June 1st, 1934
INSTALMENTS—ROLLING STOCK PURCHASES			
975,000 00	4½	United States	May 31st, 1933
2,000,000 00	5	United States	June 30th, 1933
975,000 00	4½	United States	November 30th, 1933
975,000 00	4½	United States	May 31st, 1934
2,000,000 00	5	United States	June 30th, 1934
975,000 00	4½	United States	November 30th, 1934
NORTHERN ALBERTA RAILWAYS COMPANY PURCHASE			
2,500,000 00	4	Canadian	June 1st, 1933

E. E. LLOYD,
Vice-President and Treasurer.

By Mr. Power:

Q. Doubtless, Mr. Beatty, this was a copy of the letter which you furnished to the Prime Minister in your confidential statement of May 30th, 1933.—A. There are the same particulars, Mr. Power, in both. Might I interrupt you just for a moment, Mr. Power. You will notice that the total of them is $57,000,000 and we borrowed $60,000,000, because we made an allowance for an exchange which was running very heavily against us at that time.

Q. In this list we find those items "instalments—rolling stock purchases," all payable in United States currency. Three of these instalments were payable during the year 1933?—A. Yes.

Q. Three were payable during the year 1934, and one, $975,000, as late as November 30th, 1934?—A. Yes.

Q. Those were to take up, as has already been stated, maturities on your Equipment bonds?—A. Yes.

Q. The instalments?—A. Yes.

Q. Well, now, under the heading of Bonds, we find $12,000,000 due in Canadian funds, 5 per cent, April 15, 1934?—A. Yes.

Q. As I understand it, these were the 5 per cent bonds which had as their security—A. $15,000,000, I think.

Q. $15,000,000?—A. $15,000,000 of Consolidated debenture stock?

Q. $17,000,000 of Consolidated debenture stock?—A. Fifteen millions.

Q. Due on 15th April, 1934?—A. Yes.

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Q. Then you have bank loans, some due in the United States and some in Canada, but mostly due in the United States. May I ask how these bank loans were incurred and for what purpose.—A. I might explain there, Mr. Power, that where you see "payable in the United States" in one instance, there is a loan to the Bank of Montreal in New York and that goes in to the United States only because it is payable there; but that, of course, has been discharged. Those moneys were required to replace moneys that we had already spent on capital account and had not been capitalized. Previously we had resorted to short-term borrowing.

By Mr. Bowman:

Q. It was a temporary expedient?—A. Yes.

By Mr. Power:

Q. Could I take the first loan listed, $7,500,000 payable in the United States and due June 22nd, 1933. I imagine that is the loan due to the Bank of Montreal and payable in American funds?—A. Yes.

Q. For what specific purpose, can you tell us, was this loan made?—A. We had very heavy commitments that year, something in excess of $30,000,000 and we were providing the money for that.

Q. Could you tell us the nature of the commitments?—A. Well, yes, I can give it to you, Mr. Power. Completion of construction of branch lines $6,159,000; additions and improvements to main lines and branches $9,691,000; expenses of leased and acquired lines $8,121,514; rolling stock equipment $6,767,180.

Q. And those were looked after by loan from the Bank of Montreal?—A. Yes.

Q. You borrowed $15,000,000 from the Bank of Montreal?—A. We borrowed $5,000,000 and $15,000,000, $20,000,000 altogether.

Q. Now, what arrangements had you made with the banks in connection with these loans, when were they payable?—A. Payable one year, renewable —in the case of the Bank of Montreal—renewable for a further period of one year; and, in the case of the Chase National Bank, it was renewed by them at the end of the period.

Q. I gathered from your statement, Mr. Beatty, that you had no loans with the Bank of Montreal up to 1931, so this loan was made some time during the year 1931?—A. Yes.

Q. The loan of $15,000,000?—A. That is right.

Q. And the $5,000,000?—A. $20,000,000 altogether.

Q. And it was to cover moneys advanced to take care of branch lines, just as you have stated?—A. Yes. We have, at least we think we have, to keep a substantial balance in the bank in view of the nature of the Company's operations and, as I say, we have been accustomed to advance moneys from the treasury from time to time and later on cover them, that is, fund them with ordinary securities.

Q. Now, the loan with the Chase National Bank, that was on account of an amount of $10,000,000 payable on July 15th, 1933, and, as you say, it had been renewed for one year?—A. By that time it had been paid; it was paid off last year.

Q. For what purpose was that loan made? Was it for improvements in U.S. property?—A. Oh, no, none of it. It was offered to us at a very low rate of interest.

Q. Were the proceeds used entirely for the purposes of U.S. lines, or for other services?—A. Well, Mr. Power, I do not know whether I could analyze any particular part as being allocated to any one piece of work. It was used generally for our construction program.

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Q. Were the proceeds of any of these loans used for the construction of the Royal York?—A. Well, no. The Royal York Hotel was completed long before this transaction took place, and the proceeds might be said to replenish the treasury for moneys they had expended in connection with services.

Q. Including the "Empress of Britain"?—A. Well, yes, the "Empress of Britain." I think she just came out that year.

Q. She came out in— —A. 1931.

Q. Did any of these moneys go to the construction of Lucerne?—A. Well, just in the same way. Lucerne was completed and we had financed it out of our treasury.

Q. And to meet the expenses of Lucerne, the "Empress of Britain," and the Royal York moneys were paid out of the treasury?—A. Yes, and this was to replenish the treasury.

Q. You borrowed the money to replace it in the treasury because you needed a certain amount of money in the treasury?—A. Yes.

Q. Now, with respect to the loan, to the First National Bank of Chicago, of $1,000,000, was that borrowed in the same way and for the same purpose?—A. No. We were the guarantors, from 1890 on, of certain securities on the Soo Line. The money was borrowed temporarily and paid off later. At that time, of course, the rate of exchange was certainly against us.

Q. You borrowed the money, you did that because the rate of exchange was high?—A. Yes.

Q. You had the money in Canada and could very well have sent it over?—Yes.

Q. But unfortunately when the loan came due you no longer had the money and you had to make further borrowing?—A. Well, that is true.

Q. This loan of $1,000,000 was paid out of the $60,000,000 guaranteed by the government?—A. Yes.

Q. The First National Bank of St. Paul, a loan of $400,000, due November 1?—A. The same character.

Q. To avoid the payment of exchange?—A. Yes.

Q. And also the loan of $400,000 due to the First National Bank of Minneapolis?—A. Yes.

Q. Did these banks, both American and Canadian, ask you for any security? What security was given to the banks?—A. For the first year I think it was a straight note of the company, and in the second year it was collateralized.

Q. What kind of collateral?—A. Well, we had securities of our own,—100,000 shares of Consolidated Smelters, and the balance in debenture stock, so at the time these loans matured—Mr. Dodds will give you the particulars of that from the bank's records.

Q. You are now referring, I imagine, to the Bank of Montreal, but how about the Chase National, what kind of security did they get?—A. The same collateral had been offered, that is, after the first year, Mr. Power, when it was renewed.

Q. The first year you did not have any collateral?—A. No, they did not ask for any collateral.

Q. When did the change take place in the banks' attitude whereby they demanded that a government guarantee be required?—A. Well the banks took that position in 1933, about the time we were considering the extension of the loan from the banks. They all took the same position.

Q. And can you tell me approximately about what date, or time, in 1933 it first came to your notice that the banks would not renew these loans or give you further accommodation unless you had the guarantee of the government?—A. They took that position at, I think, about the time of the bank holiday in the United States.

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Q. That would be March 4th, 1933?—A. We discussed it for two or three months with the banks, at least with our bank, and later on we discussed it with the other banks.

Q. That is to say the Canadian banks?—A. Yes.

Q. They took the attitude that since there were banking difficulties, that is, the one bank in Canada—the Bank of Montreal—took the attitude that since there were difficulties, in the United States, in the banking situation it would be necessary for you to put up a better collateral than you had done hitherto?—A. And because of the fact that it was not the kind of a loan by virtue of its terms, that the banks welcome.

Q. Not the kind of a loan?—A. No.

Q. Now, did the Chase National Bank and the other American banks take the same attitude?—A. No, they were not in this at all.

Q. They wanted repayment, they wanted cash.—A. They were paid off.

Q. They wanted to unfreeze these loans?—A. Yes.

Q. At the time you made this loan from the Bank of Montreal was there any intimation given to it that there was a possibility of the government guaranteeing the loan?—A. No, I told them I would ask for it.

Q. The original loan from the bank in 1931?—A. No, sir, none.

Q. But when the loan was about to come due in 1933 you discussed further collateral with the banks.—A. Yes.

Q. And you gave them an understanding that you would discuss it with the government?—A. I told them that I would apply to the government and, of course, as you know, the amount was very much extended in 1933 because not only were the bank loans to be paid off but these other obligations of ours in the next two years were provided for by this loan.

Q. As a matter of fact, this loan was used to meet approximately $40,000,000 of obligations maturing in 1933, and there is $20,000,000 approximately—I think it is $19,000,000—more to be met in 1934?—A. I think that is right.

Q. $12,000,000, 5 per cent interest, payable in Canadian currency April 15, 1934; $2,544,000, 5 per cent interest, payable in U.S. currency or sterling, June 1, 1934; $975,000, 4½ per cent interest, payable in U.S. currency May 31, 1934; $2,000,000, 5 per cent, payable in U.S. currency, June 30, 1934; and $975,000, 4½ per cent payable in U.S. currency November 30 1934?—A. That is correct.

Q. Making approximately $19,000,000. That is to say $19,000,000 that were not immediately needed?—A. No.

Q. Was this proposal that you should approach the government or make application to the government for a guarantee of the loan ever put before your shareholders?—A. No it was reported to our shareholders.

Q. It was reported to your shareholders?—A. We do not require any corporate action. The directors have authority to do this.

Q. Was any authorization given to the Company to issue further debenture stock at a meeting of shareholders held on May 3, 1933?—A. Oh, yes.

Q. Was that in connection with this?—A. Well, yes. It was in connection with the statute which was passed in 1932 extending our powers, and so we asked the shareholders for authority to use that, which they gave us.

Q. Authority to use those powers to the extent of $100,000,000?—A. Whatever amount we required, I think. Here is the annual report of 1932 which was approved by the shareholders:—

> Owing to financial market conditions no preference stock or Consolidated Debenture stock was sold during the year, your directors deeming it advisable that the Company's requirements should be met by short-term loans. These loans amount to $30,000,000, secured by pledge of, $40,000,000 Consolidated Debenture stock, and $5,000,000 bonds of Lucerne-in-Quebec Community Association.

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> For the purpose of meeting maturing obligations and providing for capital and other requirements of the company, your directors recommend that your authority be given to the issue of Consolidated Debenture stock, to be disposed of by way of sale or by pledge as security for loans, as market conditions and circumstances may warrant.

Q. It did not say to what extent?—A. No.

Q. Would it be possible for you to secure and file a copy of the minutes of that meeting of the shareholders?—A. Oh, yes, I will be very glad to. They are published anyway immediately after the meeting.

Q. Are the minutes in the report?—A. No. The minutes are sent to the shareholders immediately after the meeting.

Q. Now, you stated in your statement that for sometime previously to May 30, you had conversations with the government, or members of it, with a view to making application for this guarantee?—A. I had a talk—several talks—with the Prime Minister. They were confined to my indicating to him what our requirements were, what our maturities were, and also a general discussion on more than one occasion, of the possible marketing conditions in the United States and London which might permit us making a public issue.

Q. When did these conversations begin, about?—A. I rather think they would begin about March, 1933.

Q. And were carried on, more or less continuously, until May 30, when you made the formal application?—A. When I made the formal application.

Q. Now, I assume that it was as a consequence of the decision taken by the government on this formal application that on May 31, 1933, the Prime Minister wrote to Sir Charles Gordon. The letter appears on the last page of the sessional papers produced here, 150E, page 13. I think perhaps I had better read the letter:

> OTTAWA, May 31, 1933.
>
> Dear SIR CHARLES,—You have explained to me the proposal which I understand has already been discussed with the Canadian banks for financing certain capital obligations of the Canadian Pacific Railway Company which will mature between the 1st of June next and the end of 1934, amounting to approximately sixty million dollars.
>
> I appreciate that, owing to disturbed economic conditions, it is impossible to obtain the required amount in any of the foreign markets, but understand that the banks, acting in concert, are prepared to advance the required amount, if the government will guarantee payment of the principal and interest.
>
> The proposal is that the loan shall be for five years, with interest at five per cent per annum payable semi-annually, secured by the pledge by the Company of its Perpetual four per cent Consolidated Debenture stock of nominal or par value of one hundred million dollars.
>
> I have discussed the matter with my colleagues and we have decided that in the public interest the Railway Company should be placed in a position to meet the obligations in question and the government will therefore guarantee payment of the principal and interest of the loan.
>
> As I am on the eve of departure for England, the transaction will be carried out by my colleagues through Sir George Perley, who will be Acting Prime Minister in my absence.
>
> I understand that the Company will shortly require a substantial part of the loan, so that I am giving you this assurance in order that there may be no delay in making the necessary arrangements between the Company and the banks.

[Mr. E. W. Beatty]

> The Relief Act, 1933, provides that, notwithstanding the provisions of any statute or law, the Governor in Council may loan or advance money to or guarantee the payment of money by any public body or undertaking and in respect of such loans, advances and guarantees may accept such security, enter into such agreements and generally do all such things as the Governor in Council may deem expedient in the public interest. Under the authority of this statute, the requisite order in council will be passed as soon as arrangements between the Company and the banks have been completed, guaranteeing the payment of sixty millions of dollars, with interest at five per cent per annum, payable semi-annually, as above indicated.

Q. Now, I ask if it was on the strength of this letter that the banks actually advanced moneys to the Company?—A. I assume so. They will answer for themselves but I think that is the case, Mr. Power.

Q. As a matter of fact, on May 31, the day on which this letter was written in Ottawa, there was a payment made in the United States of $975,000, part of this $60,000,000, loan, plus the exchange, amounting to $136,500, making a total of $1,111,500; there was also paid, on June 1, in connection with the Northern Alberta Railways Company's purchase, $2,500,000; there was also paid, to the Bank of Montreal, on June 22, in U.S. funds, $7,500,000 plus exchange of $328,125, making a total of $7,828,125; and also to the Bank of Montreal, on June 22, $7,500,000; and, on June 30, Instalment Rolling Stock Purchases, $2,000,000 in U.S. funds, plus exchange amounting to $151,000, making a total of $2,151,000; July 1, Northwestern National Bank of Minneapolis Loan, $500,000 in U.S. funds, plus exchange of $38,125, making a total of $538,125; and, on July 15, to the Chase National Bank, $10,000,000 plus exchange amounting to $511,143, making a total of $10,511,143; and, on August 29, to the First National Bank, a payment of $1,000,000 plus exchange $60,312, making a total of $1,060,312; and, on November 1, First National Bank, St. Paul, $400,000 plus exchange amounting to $16,453, making a total of $416,453; and, on November 1, to the First National Bank, Minneapolis, $400,000 plus exchange $16,453, making a total of $416,453; making a total payment before November 30, 1933, of $34,033,-111,—before November 29, 1933, the date of the order in council.

Q. Mr. Beatty, I asked you when you went to England? When was it?—A. 15th July.

Q. 1933? A large number of these loans, forming a total of what?—A. I have not the total here, but I can easily work it out.

Q. You gave it as $34,000,000?—A. About $30,000,000 odd was already obtained. There were two instalments, instalment of $35,000,000 and $25,000,000.

Q. Did you go to England expressly for the purpose of endeavouring to raise money in England?—A. That was the principle object of my trip.

Q. But you already had—A. I wanted to get rid of this thing as quickly as I could, if I could get a public issue.

Q. Had you been able to make a public issue, the necessity for this guarantee would not have arisen?—A. No, sir.

Q. So the transaction would have been carried on with the banks without there having been any necessity for an order in council?—A. No, if I had made a public issue I would have got money and paid off the banks.

Q. You would have paid off the banks?—A. Yes.

Q. But there would have been no necessity for the making public of any of those transactions?—A. Well, I do not—I would not say that because we would have reported the liquidation of the loans.

[Mr. E. W. Beatty]

By Hon. Mr. Ralston:

Q. Just to keep the record clear with regard to the issue of debenture stock, I should like to ask this question. The total amount of debenture stock which is now owed, is how much?—A. $515,000,000.

Q. I beg your pardon?—A. $515,000,000, including debenture stock that is deposited as collateral.

Q. Can you break that up? I notice what you said up to December 31, 1932.—A. Yes.

Q. I think there would be $226,000,000 payable in sterling in the hands of the public.—A. Do you want to know the total amount of debenture stock outstanding?

Q. Yes.—A. At the end of December, 1933, we had issued $515,911,000 of which $224,500,000 was pledged as collateral security to bonds and bank loans leaving debenture stock in the hands of the public, mostly in England and the United States, to the amount of $291,411,000.

Mr. GEARY: The same as you had the year before.

WITNESS: Yes. only the collateral has been increased, Colonel Geary.

By Hon. Mr. Ralston:

Q. Now, go back to December 31, 1932?—A. Yes.

Q. As I understand it, there were $226,000,000 payable in the hands of the public.—A. 1932?

Q. December 31, 1932.—A. Where do you get that figure?

Q. I thought I got it from you. Perhaps I am wrong.

Mr. BOWMAN: $291,000,000.

WITNESS: In the hands of the public there was exactly the same amount in 1932 as in 1933.

By Hon. Mr. Ralston:

Q. I am not differentiating between debenture stock payable in sterling, and in United States figures.—A. $65,000,000 debenture stock payable in United States funds the balance in sterling.

Q. The balance of $291,000,000 in sterling?—A. Yes.

Q. The balance would be $226,000,000?—A. That is right.

Q. So that the total in the hands of the public as at December 31, 1932, was $291,411,000?—A. Yes.

Q. And at that time there was also pledged to secure collateral, collateral trust bonds of $164,000,000?—A. Yes, $164,500,000.

Q. That makes roughly $455,000,000?—A. It is included in the total.

Q. Now, in addition to that, was there any stock at the end of December, in 1932, pledged to secure bank loans?—A. Yes.

Q. How much?—A. I do not know, off-hand, what the exact amount of collateral was, but if you take the difference between the amount issued in 1933 and 1932 you will find that the debenture stock has increased by $100,000,000, less the amount of the collateral released by the discharging of these prior loans. I can have that worked out for you, but our statements do not show the exact amount.

Q. I think roughly it amounts to this, that the increase between December 31, 1932 and December 31, 1933, is $50,000,000 gross?—A. Yes.

Q. So that of the $100,000,000 which has been pledged to secure the government guarantee, $50,000,000 is represented by released collateral?—A. I should think that would be about right, without checking it.

Q. Now, you say you cannot give us how much in addition to the $455,000,000 was pledged to secure the bank loans, but at the end of December, 1932, you say that it was approximately $50,000,000?—A. The collateral is not listed in our statement, but I can get it for you if you would like to have it.

[Mr. E. W. Beatty]

Q. What I had in mind was this: With regard to your figure of surplus of $800,000,000, I understood you to say you have $800,000,000 of a surplus of issued debenture stock. What I wanted to get at was what part of that was surplus?—A. The surplus is composed of two things, capital, preference and common stock, and the surplus of the company as a result of its operation, assets and other properties, a little over $300,000,000 at that time, and that total is the $826,000,000 which I gave you.

Q. I wanted to get the surplus. In arriving at your surplus, at what figure do you put your collateral, your outstanding debenture stock?—A. We just take everything that we have issued, and ascertain our surplus after that. If you have a copy of the report, you will find our surplus is outlined there, capital stock less discount of bonds and notes, $66,000,000—I am quoting from 1932—land surplus of $120,000,000, revenue $167,000,000—

Q. I think we are at cross purposes. As I understand the statement you gave, you placed your surplus at $800,000,000 over and above the consolidated debenture stock?—A. Right.

Q. And that the surplus would be represented by assets on one side, and liabilities on the other?—A. Yes.

Q. The difference between the assets and the liabilities. What I am asking is this: in arriving at that $800,000,000 at how much do you put consolidated debenture stock?—A. We take the consolidated debenture stock at par.

Q. What is the figure?—A. I do not know the total of that. I would have to calculate each individual item here in this list. As I say, I have not the statement in front of me showing what is deposited in respect of each item.

Q. What I was trying to do was to get the figure of how much you take for consolidated debenture stock?—A. I understand.

Q. So, you have not the figure there?—A. Of course, the question of debenture stock and the liability of all comes off before we reach a surplus.

Q. What I am trying to get at is, what is the figure?—A. I cannot give you that offhand.

Q. You show the same amount of debenture stock outstanding in May, 1933, that is to say, $455,000,000?—A. Well, there again I would have to analyze what was released and what was put up on that particular day, Colonel.

Q. You have not it?—A. No.

Q. Can you give us a statement of your actual net rate now?—A. Yes.

Q. And the total amount of debenture stock which was issued either in the hands of the public held at collateral for collateral trust bonds, or held as collateral for bank loans as of May 3, 1933, when the resolution was passed?—A. Yes.

Q. And in that statement, Mr. Beatty, would you show us separately how much the consolidated debenture stock was to cover the loans which were subsequently absorbed by the government, or which would be subsequently absorbed because of loans?—A. Yes.

Q. In 1934? Now, the limit of your issue of consolidated debenture stock, as I understand it, is one-half the value of the assets shown by the balance sheet?—A. Yes.

Q. And the value of the assets as shown on the balance sheet is what?—A. About $1,167,000,000 in that year.

Q. That is, December 31, 1932?—A. Yes.

Q. Is your fiscal year the current year?—A. Yes. In elaboration of that answer may I say that at the end of 1931—I take that year because I can make a comparison with American roads—the percentage of funded debt of the Canadian Pacific, including note certificates of total capitalization was 48·8 per cent; United States, class one railroads, 62½ per cent.

Q. What was the last figure?—A. 62½ per cent.

[Mr. E. W. Beatty]

Q. You said the valuation in the last balance sheet. I have not the balance sheet before me. How is that valuation arrived at?—A. I was quoting from the annual report of 1932, and the assets, property investment, railway rolling stock, equipment, lake and river steamships and hotels, $871,789,000; ocean steamships, $116,408,000; acquired securities, $178,000,000; and that total is $1,167,000,000.

Q. How is that valuation on railways and steamships arrived at?—A. That is the cost—

Mr. GEARY: On book costs?

WITNESS: Yes.

By Hon. Mr. Ralston:

Q. That is the way they are related all the way through?—A. Yes.

Q. No write-off?—A. Just ordinary write-offs. We make every year depreciation on ocean and coastal steamers and rolling stock replacement.

Q. The valuation for the purpose of determining the limit of the issue of consolidated debenture stock is on book values or cost values?—A. Yes.

Mr. GEARY: You set up no depreciation on equipment, do you?

WITNESS: No, we replace it.

By Hon. Mr. Ralston:

Q. Colonel Geary calls my attention to the fact that when Iasked you about your fiscal year I used the word "current year." Of course, I meant calendar year.—A. Yes, I understood you.

Q. Now, with regard to your discussions with the Prime Minister in March, I think you said they began in March, 1933. In your early discussions with him, did you suggest the possibility of insisting on a government guarantee?—A. I said, as I recall it, I might have to come to him later.

Q. And was the discussion then about other banks to take a portion of the loan?—A. Yes.

Q. Who initiated the discussions with the other banks?—A. I did, through the Bank of Montreal.

Q. That is, the Bank of Montreal discussed it with the other banks?—A. Yes.

Q. Did you get a reply from the Bank of Montreal?—A. In some cases I got it direct. I saw some of the presidents of the other banks myself, with the president of the Bank of Montreal, and got their views.

Q. What was their attitude?—A. Very favourable.

Q. No hesitation on their part?—A. No.

Q. That was predicated on the government guarantee?—A. Yes.

Q. When were you in a position to be able to say to the Prime Minister that the other banks would come in on the loan if the government guaranteed it?—A. I gave on my last interview with him in my—

Q. Were you not in a position before that?—A. No.

Q. When was the actual verbal assurance given, Mr. Beatty, that the government would guarantee the loan?—A. Well, there certainly was no commitment on the Prime Minister's part up to the 30th of May. As a matter of fact he did not make a definite decision either way just took it under consideration.

Q. It seemed to me as if the letter of May 31st was formed on a prior pledge?—A. Yes, at that interview he said, subject to the approval of his colleagues.

Q. But the discussion had been going on through March, April and May?—A. Yes, between me and him.

[Mr. E. W. Beatty]

Q. Was the thing which brought it to a head the fact that the loan of May 31, was coming due?—A. No, the 22nd June obligation was that which brought it to a head.

Q. I beg your pardon?—A. The 22nd June obligation was what brought it to a head.

Q. Had you an understanding with the Prime Minister previous to the writing of the letter of March 31st?—A. No, sir.

Q. That he would guarantee a loan?—A. No.

Q. May 31st?—A. May 31st.

Q. Do I understand that the verbal assurance was given at the meeting of May 30th?—A. Yes, subject to the approval of the cabinet.

Q. I beg your pardon?—A. Subject to the views of his colleagues.

Q. You had not effected any loans up to that time based on the assurance of the guarantee?—A. No.

Q. When you say the banks actually consented to it, you would have to give the Prime Minister assurance in the interview of May 30th? How long before that did you have the assurance that the banks would take their share of the loan?—A. Well, we did not see the banks at the same time. It might easily have been a week or ten days.

Q. When was the schedule worked out as to the approximate proportion?—A. Well, we asked the banks if they would come in on the basis of ratio of capital stock reserve to each other.

Q. Was that the basis on which your discussions were conducted?—A. Yes. As I explained in my statement, two banks asked for a moderate change, and that was accepted and the Bank of Montreal took the shares that they did not take.

Q. Up to the time of these negotiations with the other banks, the Bank of Montreal was the only bank concerned at all?—A. Yes.

By Mr. Raymond:

Q. You said that the Bank of Montreal was the principal bank of the C.P.R.?—A. Yes.

Q. Up to 1931 you were never faced with the necessity of borrowing money from the bank. In 1931 how much did you borrow from the Bank of Montreal?—A. $20,000,000.

Q. At the end of the year 1931 you owed to the Bank of Montreal $20,000,000? When did the depression start for the company?—A. In 1931. It had started before then, but it was not so noticeable in our revenue until 1931.

Q. Revenues were falling down in 1931?—A. Yes.

Q. To what extent?—A. Oh, very rapidly. It is in the statement. I can give it to you. The surplus, after fixed charges, in 1931, was $14,584,000, which was a very great decrease over the year before. The gross rail earnings in the year decreased $38,600,000 and the net rail earnings $12,600,000, and that again was decreased, in 1932, so far as gross was concerned. This decreased in 1933, but our economies by that time had overtaken the loss in gross.

Q. Comparing 1931 with 1930, what is the amount of net decrease?—A. I can give you that in a yearly surplus. In 1930 our surplus was $39,131,000, and in 1931 it was $14,584,000.

Q. In 1932, did the C.P.R. pay any dividend on the common shares and on the preferred shares?—A. Not on the common, nothing on the common.

Q. On the preferred shares. We will start with the preferred.—A. Yes, we paid a small dividend in 1932 on the preferred, 2 per cent.

Q. I want to know the amount.—A. In money?

Q. Which was paid, yes.—A. $2,745,000.

Q. On the preferred stock?—A. Yes.

Q. And on the common stock?—A. Nothing.

[Mr. E. W. Beatty]

Q. If you allow me, I would refer you to the annual report ending December 31, 1932, and I read this on page 16: "Dividend on ordinary stock for last quarter, 1931, $4,187,500 paid in April, 1932?—A. Yes.

Q. $4,187,500?—A. That is 1931.

Q. No, paid in 1932.—A. Yes, paid in 1932 because declared in 1931. It is 1931 earnings.

Q. Making a total of $6,932,638; is that correct?—A. Yes, but not attributable to that year. The common stock dividend was declared in respect of 1931.

Q. The last quarter was got in 1931 but paid in 1932?—A. That has always been the practice to declare the last quarter in the next three months.

Q. Then, in 1932, were you still faced with the necessity of going back again to the Bank of Montreal to procure some money and to what extent?—A. In 1932 we extended our loans.

Q. Renewed?—A. Yes.

Q. So that, at the end of the year 1932, the debt of the C.P.R. in favour of the Bank of Montreal did not exceed $20,000,000?—A. Yes. This year there was a change in the character of one of our loans, and the total was $20,000,000, I think. I am speaking from recollection now—no, $30,000,000 in 1932, Mr. Raymond; that is $10,000,000 to the Chase Bank and $20,000,000 to the Bank of Montreal. You are speaking of the Bank of Montreal?

Q. And during that same year, 1932, the revenues still continued to decrease?—A. Yes.

Q. Is that correct?—A. Yes.

Q. To what extent as compared with the year 1931?—A. Our surplus after fixed charges for 1932 was $1,007,000.

Q. I want net revenue?—A. Well, net earnings, the difference between the two. The net earnings were $20,000,000 in 1933, and $58,000,000, net railway revenue in 1929.

Q. 1930 and 1931?—A. In 1931 net earnings from railway earnings were $25,000,000, special income $10,000,000, a total of $36,000,000, fixed charges reducing that to $14,500,000.

Q. Coming up to 1932, when did you face the loan due to the Bank of Montreal, and what was the amount in March, 1933?—A. March, 1932.

Q. March, 1933?—A. We owed the Bank of Montreal $20,000,000.

Q. $20,000,000?—A. Yes.

Q. And I understand that the Bank of Montreal wanted to be reimbursed or wanted to get additional security; is that correct?—A. They asked for additional security in 1932; they asked for additional security, not more than 1931.

Q. Also in 1933?—A. Yes.

Q. Did the C.P.R. have any shares of Consolidated Mining and Smelting Company at that time?—A. Did we?

Q. Yes.—A. Yes.

Q. You still have them?—A. Oh, yes.

Q. Are they not good security for any loan?—A. They were given to the Bank of Montreal.

Q. When—A. 1933.

Q. But in 1933 when the Bank of Montreal wanted to have additional securities, did the C.P.R. have 275,000 shares of Consolidated Mining and Smelting Company?—A. I would think so. It is in our schedules. Are you speaking of 1932 or 1933?

Q. 1932.—A. Yes, we had a lot of them.

Q. At the time when the Bank of Montreal wanted to have additional security?—A. Yes. At the end of 1932 we had 305,587 shares of Consolidated.

Q. Didn't you think you had some way of financing your debt to the Bank of Montreal with these shares of Consolidated Mining and Smelting?—A. Do you mean to dispose of them and pay the—

[Mr. E. W. Beatty]

Q. You could have given them as security for the loan.—A. We did, part of them, gave them 100,000 shares as security.

Q. 100,000 shares were given?—A. Yes.

Q. You had in your treasury then 175,000 more?—A. Yes, easily.

Q. You did not use them?—A. No; the bank was amply secured at that time, anyway, because they had consolidated debenture stock as well.

Q. In March, 1933, I understand that the Bank of Montreal did not consider the first loan was safe, and wanted additional guarantees?—A. No, I did not say that, Mr. Raymond. As a matter of fact, when you mentioned those broken dates, I cannot tell you exactly what the bank had, though Mr. Dodds can.

Q. Mr. Dodds can give me that information?—A. Yes, he has got that all tabulated.

Q. Now, about the participation of the other banks in the loan of $60,000,000. Did any official of the C.P.R. interview the officers of those other seven banks outside the Bank of Montreal?—A. I did.

Q. You did with all of them?—A. Not all, but some of them.

Q. And it was in March and April?—A. No, I did not speak to every bank that early, only to the Bank of Montreal. Later on I took it up with the other banks and Sir Charles Gordon did likewise.

Q. They were satisfied to participate in the loan as long as the government was willing to guarantee the loan?—A. Yes.

Q. But the order-in-council was passed in November, 1933?—A. Yes.

Q. Advances were made by these banks before that?—A. Yes, on the strength —

Q. On the strength of the letter dated May 31, signed by Mr. Bennett?—A. Yes, undoubtedly.

Q. Was that letter given to any of the other banks?—A. Not so far as I am aware.

Q. But this letter is addressed only to the Bank of Montreal.—A. Yes, the Bank of Montreal was the head of the syndicate of banks that we have been speaking of.

By Hon. Mr. Euler:

Q. Mr. Beatty, might I address a few questions as a layman not as a lawyer, trying to get a little information. I take it that the $60,000,000 required by the railway was required entirely for capital purposes?—A. Yes.

Q. It covered also the requirements of 1934?—A. Yes.

Q. That is, maturities. During 1934, how much of that $60,000,000 has already been expended, just approximately?—A. I can give you that. About $40,000,000.

Q. About $40,000,000?—A. Out of the obligations maturing during the year $38,750,000 were retired, and $1,410,000 of securities maturing in 1934 were secured—

Q. That leaves about $20,000,000. Is that with the treasurer or at the credit of the company at the various banks?—A. Well, of course, moneys are deposited in many banks.

Q. The question I wanted to ask particularly was, is this balance of some $20,000,000 ear-marked for this particular purpose, for the purpose of retiring those capital commitments?—A. It is with me; it is intact.

Q. I want to ask this question, and I hope it is not embarrassing, Mr. Beatty: could the balance of $20,000,000 which you still have with the banks be ear-marked for any other purpose, or is it specifically ear-marked for the purpose of retiring these maturities during 1934?—A. I can answer that in this way, Mr. Euler; the directors have borrowed this money for a specific purpose, and it is my obligation I take it to see that it is spent for this purpose only.

[Mr. E. W. Beatty]

Q. It would not be ear-marked for the current business of the company?—A. No.

Q. There is no specific guarantee of that, I suppose.—A. No.

Q. The obligations of 1934 will absorb the full $60,000,000?—A. Correct.

Q. Have you many capital obligations to meet in the year 1935?—A. No. We have very few obligations, none of a major character, before 1937.

Q. My point is this: If there were, would it be a fair assumption if conditions do not improve, that is, market conditions for the placing of your debentures, that you might have to come in the year 1935 for additional guarantees from the Canadian Government?—A. I hope not.

By Mr. Jacobs:

Q. Mr. Beatty, I would like to ask just one or two questions. You are a director of the Bank of Montreal?—A. Yes.

Q. And Sir Charles Gordon is a director of the Canadian Pacific Railway?—A. Yes.

Q. Is that why the Bank of Montreal insists on having security?—A. Sir Charles Gordon is Scotch.

Q. I understood you to say, Mr. Beatty, that you had an interview with Mr. Peacock and subsequently with Mr. Norman, and that it was represented to you that inasmuch as the Canadian Government was about to negotiate, or had negotiated, a loan there was not enough money available at that time to market both these securities, that is, the Dominion Government and the Canadian Pacific.—A. The Dominion Government had the first call, but issues of private companies outside of England were not permitted.

Q. But that was the reason?—A. Government financing had precedence, in their view. I am not quarrelling with it at all because they have other Dominions to take care of besides ours, and we were promised first consideration, when conditions permitted more general financing, but up to the moment it was to be confined to the Government financing, and that to the Federal Government.

Q. It was not in consideration of your not pressing your importunities that the Dominion Government agreed to it, in the matter of guaranteeing this loan to the Bank of Montreal?—A. No, there was no question of that at all raised, Mr. Jacobs, so far as I recall. We made the direct appeal to the Bank of England, the fiscal advisors of the Exchequer in England, and they said No, not now, very definitely, but very politely.

Q. You were prepared to pay 5 per cent, and the Dominion Government got it at 4 per cent?—A. Oh, yes, but it is quite a different thing between a private institution borrowing money and the Government.

Mr. Jacobs: Exactly.

By Mr. McGibbon:

Q. Is the amount you spend each year a reasonable amount for depreciation?—A. Yes.

Q. Is there an operating loss or an operating profit on the Royal York and "Empress of Britain"?—A. A profit on the Royal York and, and an operating profit on the "Empress of Britain"; a profit on both.

By Hon. Mr. Mackenzie (Vancouver Centre):

Q. Can you tell the committee what is the total amount of the loans and obligations that were unfrozen in the United States as a result of this loan, $60,000,000?—A. That is what Colonel Ralston asked me. I have not got it broken down in the form of proportions to supply it.

[Mr. E. W. Beatty]

Q. Can you tell the committee, in a word, the total amount of dividends paid by the Canadian Pacific Railway Company in the three years 1930, 1931, and 1932?

The CHAIRMAN: Can you separate those between preferred and common?

Mr. MACKENZIE: Yes, I would like that separated between the common and the preferred, if possible, for 1930, 1931, and 1932.

The WITNESS: You want to start at 1930.

By Hon. Mr. Mackenzie:

Q. Yes, please, dividends paid in 1930, 1931, and 1932, differentiating between the dividends on the preferred and the common?—A. For 1930, dividends paid on common stock of 5 per cent amounted to $33,242,000; and on preference stock, 4 per cent, $5,005,000; then 1931, 5 per cent on common. $16,750,000, and on preference stock 4 per cent, $5,410,000; and in 1932 nothing on the common; 2 per cent on the preferred, $2,745,000.

Q. What is the total for the three years?—A. Well, you can add. Just about $50,000,000, a little under $50,000,000 on the common and $13,160,000 on the preferred.

Q. Arising out of the question suggested by Mr. Jacobs, would you be good enough to tell us how many of the directors of the Canadian Pacific Railway are also directors of the Bank of Montreal.?—A. Six.

Q. Might I have the names, please?—A. Sir Charles Gordon, myself, Colonel Henry Cockshutt, Mr. W. N. Tilley, Mr. Ross McMaster and Mr. W. A. Black.

Q. Might I ask if any of the directors of the Canadian Pacific are also directors of the Bank of England?—A. Yes, Mr. Peacock is a director of the Bank of England and Mr. Reginald McKenna is chairman of the Midland Bank; there are two directors from the Bank of Commerce, Mr. Richardson and Lord Shaughnessy; there are two from the Royal Bank, Sir Herbert Holt—

Mr. JACOBS: That is enough.

The WITNESS: And Mr. W. J. Blake Wilson; there is one from the Imperial Bank, Mr. J. W. Hobbs; one from the Dominion Bank, Mr. Robert S. McLaughlin; one from the Bank of Toronto, Colonel Frank S. Meighen; one from the Chase Bank of New York, Mr. Robert C. Stanley. That comprises the list, and of the six directors of the Canadian Pacific Railway, who are also directors of the Bank of Montreal, four were on our board for a considerable time before they were invited to join the Bank of Montreal board, and two were on the Bank of Montreal board before they joined our board.

By Mr. Duff:

Q. Mr. Beatty, in your conversations with the Government between March and May, 1933, with reference to this loan, was any consideration ever given to the fact that instead of the Government guaranteeing the banks so that you could borrow the $60,000,000 from them that they guarantee your Consolidated debentures so that you could offer them to the public?—A. No, sir, because we considered the markets closed.

Q. So that when you went to England in July, 1933, you would not have been able to get the money over there?—A. No.

Q. Nor in the United States either?—A. No, the United States was hopeless.

By Mr. Howard:

Q. In 1931, you say your borrowings from the Bank of Montreal were $20,000,000. Does that include borrowings from the Bank of Montreal in the United States as well as in Canada?—A. Yes.

[Mr. E. W. Beatty]

Q. And, in 1932, you owed the Chase National Bank, or your borrowings from the Chase National Bank were, $10,000,000 and your borrowings from the Bank of Montreal were $25,000,000?—A. The Chase Bank was $10,000,000, Mr. Howard.

Q. Then the loan was the same, or did it increase to $25,000,000? I understood you had $25,000,000 from the Bank of Montreal, in 1932?—A. There was a change. I would rather Mr. Dodds give you his list, it is all on that. I have not got that before me.

Q. What was your peak loan from the Bank of Montreal during the years 1930, 1931 and 1932?—A. $20,000,000.

Q. Your peak loans were $20,000,000?—A. Yes.

By Mr. Bowman:

Q. Mr. Beatty, you mention the fact that you first saw the Prime Minister rather informally, in March. It was about that time the banks failed in the United States?—A. Yes.

Q. Was it before or after, or about the time of the failure of the banks in the United States that you first spoke to Mr. Bennett?—A. Well, it was going on for some little time, Mr. Bowman. The situation in the United States, you will remember, was becoming critical from the first of the year, and it was in March, I think, that the general bank holiday was declared.

Q. Yes, sometime about March 8th or 9th, if I recollect correctly?—A. Yes.

Q. And do you remember, Mr. Beatty, with reference to the 8th or 9th of March as to the time of your first visit to Mr. Bennett?—A. Well, it would be in March sometime. I cannot fix the date in March.

Q. As I understand from the formal statement which you read, only two classes of security rank in priority to the Consolidated Debentures issue, that is, first mortgage bonds, the annual charge of which is $3,600,000?—A. The two classes of securities are those mentioned in the statute creating the power to issue Consolidated Debenture stock, and they have to take into consideration that at that time there were certain obligations of ours outstanding, among others the mortgage of the Algoma Branch and certain rentals of subsidiary companies which we operate and which were included in our property, and which were existant at that time.

Q. What was the amount of the annual charge on the first mortgage bonds outstanding?—A. The properties consist of first mortgage bonds of the company aggregating in principal amount $3,650,000 on which the annual interest charge is $182,500, and the annual rentals—

Q. As I say, those are the only two charges that rank in priority to the perpetual Consolidated debentures?—A. Yes.

Q. Now, will you give me the net annual income that is available to meet the charges on the two items that you have referred to, the first mortage bonds, and the rental charges, that is, the net annual income available to meet these three, the interest on the first mortgage bonds, the rental charges, and the perpetual debenture issue?—A. Well, it changes every year, Mr. Bowman.

Q. Well, say for the year 1933?—A. $27,084,000 in that year.

Q. $27,084,000, and in that year there were in the hands of the public $291,000,000 of the perpetual debenture issue?—A. Yes.

Q. And our fixed charges in that year, Mr. Bowman, were $24,388,000, leaving a surplus in earnings for the year of $2,695,000 before pensions.

Q. And has the company ever at any time in its history made default in any of the interest falling due on those perpetual debenture issues?—A. No, never.

Q. Reference has been made, Mr. Beatty, to Consolidated Smelters in 1932, and the fact that the Bank of Montreal held 100,000 shares as collateral to the amount of advances to the Company?—A. Yes.

[Mr. E. W. Beatty]

Q. The value on the market of Smelters, in 1932, fell to a very large degree, did it not?—A. Temporarily. I understand it fluctuated a great deal.

Q. At one time it was down below $30 per share.—A. I think it went as low as $25. I am not sure.

Q. I rather gathered, Mr. Beatty, from a question asked you by Mr. Power, that it was rather intimated, I should say, that the company had something to conceal in connection with this transaction?—A. Oh, no.

Mr. Power: I did not say that.

The Witness: Mr. Power did not suggest that.

By Mr. Bowman:

Q. Well, possibly not. I will ask a question then, Mr. Beatty. Has the company anything to conceal from the public in connection with these transactions.

Hon. Mr. Euler: The answer is No.

Mr. Bowman: Mr. Chairman, may I ask at this stage that the Order in Council of November 29, 1933, which covers the loan under discussion be placed upon the record.

The Chairman: It will be placed on the record.

Mr. Bowman: Well, I am asking that it appear at this stage:—

P.C. 2490

1. Certified to be a true copy of a Meeting of the committee of the Privy Council, approved by His Excellency the Governor General on the 29th November, 1933.

The committee of the Privy Council have had before them a joint report, dated 28th November, 1933, from the Right Honourable the Prime Minister, the Minister of Finance and the Minister of Labour, submitting:—

1. That they have had under consideration a request to the government from the Canadian Pacific Railway Company for a guarantee of a loan of sixty millions of dollars, to be borrowed from: Bank of Montreal, the Royal Bank of Canada, the Canadian Bank of Commerce, the Bank of Nova Scotia, the Dominion Bank, the Bank of Toronto, the Imperial Bank of Canada, and Banque Canadienne Nationale, and to be repaid on or before the 1st day of December, 1938, with interest at the rate of five per centum per annum, payable half-yearly, secured by the deposit with and pledge to the said banks by the said Railway Company of its perpetual four per cent consolidated debenture stock having a nominal or par value of One Hundred Millions of Dollars.

2. That the amount to be loaned by each of the said several banks to the said Railway Company is as follows:—

Bank of Montreal	$22,444,000
The Royal Bank of Canada	12,280,000
The Canadian Bank of Commerce	10,524,000
The Bank of Nova Scotia	5,180,000
The Dominion Bank	2,808,000
The Bank of Toronto	2,632,000
The Imperial Bank of Canada	2,632,000
Banque Canadienne Nationale	1,500,000
Total	$60,000,000

3. That careful consideration has been given to the request of the said Railway Company and it appears that the capital obligations and indebtedness payable by the said Railway Company in the United

[Mr. E. W. Beatty]

States of America between the first day of June, 1933, and the first day of December, 1934, amount in the aggregate to thirty-two millions seven hundred and eighty-eight thousands of dollars. The capital obligations and indebtedness payable in the Dominion of Canada during the same period by the said railway company amount in the aggregate to twenty-seven millions of dollars. Of the said capital obligations and indebtedness of thirty-two millions seven hundred and eighty-eight thousands of dollars payable in the United States of America, two millions five hundred and forty-four thousands of dollars, part thereof, are payable in either the United States of America or in Great Britain.

4. That the said capital obligations and indebtedness of the said railway company have been incurred in the usual conduct of its business, and it has been the practice of the said railway company to retire its outstanding capital obligations by the sale, from time to time, of its perpetual four per cent consolidated debenture stock, but, under the economic conditions which have prevailed for some time, it has been impossible, and is still impossible, to sell such perpetual consolidated debenture stock, or any other securities of the said railway company on satisfactory terms, if at all, either in the Dominion of Canada or in the United States of America.

5. That the president of the said railway company recently visited London, England, and has reported that it is impossible to secure permission, under existing economic conditions, to make a public offering of the securities of the said railway company in the United Kingdom; and, apart from the existing governmental prohibition against the sale in the United States of the securities of private companies or corporations domiciled elsewhere than in the United Kingdom, railway securities (other than domestic) of all kinds are not in demand in the United Kingdom; and, further, that it is not practicable presently to renew the obligations of the said railway company maturing in the United States of America.

6. That after careful investigation it was apparent that the only source from which money could be borrowed by the said railway company to meet its said maturing capital obligations and indebtedness was the chartered banks of Canada, and such banks do not make loans for a period of five years unless they are so adequately secured or guaranteed as to enable the said banks to re-discount or obtain advances on the notes of the borrower and thus render available for the conduct of their ordinary commercial business the whole or such portion of the advances made as may be required; and, under existing economic conditions, with the low level of prices for railway securities, the guarantee of repayment by the Dominion of Canada was necessary if the said loan of sixty millions of dollars was to be made to the said railway company by the said banks.

7. That the perpetual four per cent consolidated debenture stock of the said railway company is widely distributed in various parts of the world, particularly in the United Kingdom, where the market price thereof has in recent months been as high as eighty-five per cent of the par value thereof, and, in the opinion of the ministers, failure by the said railway company to pay and discharge its said capital obligations and indebtedness at maturity would create a situation injurious to the credit and financial position of the Dominion.

8. That, under the provisions of the Relief Act, 1933, the Governor in Council is authorized and empowered to loan or advance money to or guarantee the payment of money by any public body, corporation or

undertaking, and in respect of such loans, advances and guarantees, may accept such security, enter into such agreements, and generally do all such things as the Governor in Council may deem necessary and expedient in the public interest; and to take all such measures as in his discretion may be deemed necessary or advisable to protect and maintain the credit and financial position of Canada.

9. That the said railway company is a public corporation carrying on its operations not only in Canada but in other parts of the world; and, in the opinion of the Ministers, under present disturbed economic conditions, it is desirable, to prevent default by the said railway company in discharging its said capital obligations and indebtedness as they mature, and in the public interest, to grant the request of the said railway company as a measure for the protection and maintenance of the credit and financial position of Canada.

The Ministers, therefore, recommend that the Minister of Finance be authorized and empowered to enter into an agreement with each of the said eight chartered banks, guaranteeing payment to such bank of the sum mentioned in the said agreement, being the amount loaned or to be loaned by the said bank to the said railway company, as hereinbefore mentioned, with interest at the rate of five per cent per annum, payable half-yearly, in the following general form:—

THIS AGREEMENT, made and entered into this.................... day of..................1933, BETWEEN

His Majesty the King, in right of the Dominion of Canada, hereinafter referred to as and designated—*The Crown*, acting herein by the Honourable Edgar N. Rhodes, K.C., the Minister of Finance of Canada, thereunto duly authorized by Order in Council, No. P.C.........of the First Part; and

......................, a Canadian Bank, duly chartered under the Bank Act and the Bank Charters Continuation Act, 1933, hereinafter referred to as and designated *the Bank* of the Second Part—

Whereas the Bank has loaned or proposes to loan to the Canadian Pacific Railway Company sums amounting in the aggregate to.......... Dollars, repayable as to................Dollars, part thereof, on the twenty-second day of June, 1938, and as to................Dollars, the balance thereof, on the first day of December, 1938, all with interest at the rate of five per cent per annum, payable half-yearly, evidenced by the promissory notes and undertakings of the Railway Company and secured by the deposit with and pledge to the Bank of the perpetual four per cent consolidated debenture stock of the railway company having a nominal or par value of..............Dollars, represented by certificate No............registered in the name of................... and delivered to the Bank herewith.

And whereas the railway company has requested the Crown to guarantee the repayment to the Bank of the said sum of.............. Dollars and................Dollars, amounting in the aggregate to ....Dollars, as aforesaid, at the respective dates of the maturity thereof, with interest at the rate of five per cent per annum, as aforesaid, and the Crown has agreed so to do;

Now therefore, this agreement witnesseth as follows:—

1. The Crown hereby guarantees the repayment to the Bank at maturity of the whole of the then unpaid balances of the loans made or to be made by the Bank to the Canadian Pacific Railway Company, amounting in the aggregate to the sum of..............Dollars, with

[Mr. E. W. Beatty]

interest thereon at the rate of five per cent per annum, payable half-yearly, the date of maturity of..............Dollars of the said loans being the twenty-second day of June, 1938, and the date of the maturity of................Dollars, being the balance of the said loans, the first day of December, 1938, and the due dates of the interest payments thereon being the twenty-second/twenty-fifth day of December and the first/fourth day of June in each and every year during the currency of the said loans.

2. In the event of default being made by the Canadian Pacific Railway Company in the repayment at maturity of the whole or any part of the said loans and interest at the rate of five per cent per annum, payable half-yearly, as aforesaid, and the Crown being called upon to repay the same in whole or in part, the Bank hereby undertakes and agrees to endorse, assign or set over and deliver to the Crown all notes, undertakings and documents held by the Bank in connection with the said loans to the railway company, and to transfer and deliver to the Crown the perpetual four per cent consolidated debenture stock pledged to the Bank by the Railway Company as security for the said loans.

In witness whereof, the parties hereto have executed this agreement, in manner and form by law provided.

The committee concur in the foregoing and submit the same for Your Excellency's approval.

E. J. LEMAIRE,
Clerk of the Privy Council.

By Mr. Fraser (Northumberland, O.):

Q. Prior to the government guaranteeing the loan of $60,000,000, was the Canadian Pacific Railway Company borrowing money from the banks on the collateral of the Consolidated Smelters securities?—A. No, sir.

Q. Then I understand you to say that at one time 100,000 shares of Consolidated were hypothecated to the Bank of Montreal?—A. Yes, in 1932.

Q. Well then, when the government guarantee for $60,000,000 became operative that stock was released?—A. Oh, yes.

Q. Could you not have borrowed, as a business concern, from these banks on the collateral that you previously had used with the additional stock of Consolidated Smelters without involving the government in a guarantee of $60,000,000?—A. The banks did not think so.

Q. Was that discussed with the banks?—A. Well, we discussed the whole situation with the banks. I don't think any phase of it was overlooked.

Q. It seems to me the crux of this situation was the ability of the Canadian Pacific Railway as a private corporation to borrow from the chartered banks to the limit of their credit before approaching the Federal government for a guarantee. Was that covered?—A. Yes.

Q. And the banks refused to extend credit?—A. The banks expressed a very definite view, Mr. Fraser, that in view of the length of this loan and the purpose for which it was required—the paying off of capital maturities—that they should have a guarantee of the government because it was not an ordinary banking transaction.

Q. Were the banks approached to accept a lower guarantee from the government with the deposit of your collateral?—A. What do you mean by "lower guarantee"?

Q. Well, could you have borrowed part of that money by putting up part of the collateral that you had previously put up with the banks?—A. Well, we were replacing the same amount of collateral, simply turning a loan which had matured at that time into a new loan for five years.

[Mr. E. W. Beatty]

Q. Well, the point that I want to be quite clear on is that the banks refused to loan the money on your own collateral; that is correct is it not?—A. Oh, yes, the banks did not think that was sufficient considering the nature of the loan.

Q. Presuming that the Federal government had refused this guarantee, what would have been your position?

The CHAIRMAN: I do not think Mr. Beatty should be asked that question.

The WITNESS: I have done a lot of thinking, Mr. Fraser.

Mr. JACOBS: I move that we adjourn. It is ten minutes to one.

The CHAIRMAN: Well, are we through with Mr. Beatty.

Mr. IRVINE: No, we have just got well started.

By Mr. Irvine:

Q. I would like to ask, Mr. Beatty, if it is fair to assume from your evidence, that without the guarantee of the government it would have been impossible to get the loan of $60,000,000 from the banks?—A. That is the banks' advice to us.

Q. And although you perhaps do not wish to discuss what would have been the result, it is reasonable to suppose it would have been very serious. The banks refused to take whatever risk may appear to have been in the proposition, that is, they refused to make the loan.

The CHAIRMAN: Don't you think you had better ask that question of the bankers.

Mr. IRVINE: I thought perhaps I might get some information from Mr. Beatty on it. I imagine it is rather a banker's question. But the point is, that the bankers refused to take the risk and the government did take the risk. Do you know, Mr. Beatty, what the government gets for taking the risk?—A. The credit of taking it, if there is any. But I do not agree with the banks in as much as I do not think this loan is a risky loan at all.

Q. I am not suggesting that it is a risky loan, but the bankers must have thought it was a risky loan for they refused.—A. No, they thought it was an unusual loan, being a long term loan.

Q. At any rate, the point is that the Canadian Pacific Railway could not get the credit facilities at that time for its business until it got the backing of the government, and if that is so, I suggest that the government should have got the 5 per cent that the C.P.R. is going to pay for the loan; they take all the risks, if there are any, and bankers take none; they would not give the loan without the government guarantee.

By Mr. MacMillan (Saskatoon):

Q. My friend here has just spoken about the risks attached to this loan. Was not the condition largely brought about by the condition of the country at that time and financial conditions throughout the world?—A. Undoubtedly.

Q. Largely in the United States. And he asks the question as to whether, if the government had refused this guarantee, what would happen to the company.

Mr. JACOBS: Mr. MacMillan is making a speech, Mr. Chairman.

Mr. MACMILLAN: I do not intend to make a speech, Mr. Chairman.

By Mr. Willis:

Q. Mr. Beatty, is your company continually in touch with the financial centres with a view to ascertaining whether money may be borrowed?—A. Yes.

Q. Were you or not in touch with them in the spring of 1933?—A. Yes.

Q. What are the chief borrowing markets of the world, Mr. Beatty?—A. London and New York.

[Mr. E. W. Beatty]

Q. Was there any other place at that time where you could have obtained that money?—A. No.

Q. Is this, Mr. Beatty, what you might term a usual bank loan?—A. Well, I should say not.

Q. Mr. Beatty, how many shareholders approximately have you in your company?—A. We have share and security holders, I think, of about 180,000.

Q. 180,000 share and security holders?—A. Yes.

Q. In what countries are they situated, Mr. Beatty?—A. Canada, United States and Great Britain and, of course, there is a small percentage in other countries.

Q. Well, you might say they are situated all over the world practically?—A. Well, yes. They would be scattered, of course.

Q. Approximately 50 per cent in Great Britain.—A. 53 per cent, of the total is in Great Britain.

Q. And what is the percentage in the United States?—A. 25 per cent.

Q. Approximately how many employees have you in the Canadian Pacific Railway, Mr. Beatty?—A. At the present time between 50,000 and 60,000.

Q. Is that the usual amount—A. No, that is low.

Q. Up to what number have you employed?—A. We have gone up as high as 85,000.

Q. And how many would you say were employed in 1933?—A. Well, I have not seen the figures lately, but I rather think it would be between 50,000 and 60,000.

Q. What was your payroll in 1933, approximately?—A. I do not know; I have not got the figure before me.

Q. You might give us an approximate figure?—A. Oh, yes, I will be very glad to.

The CHAIRMAN: Gentlemen, we will have recess till four o'clock.

The committee adjourned at 1 o'clock to resume at 4 p.m.

AFTERNOON SESSION

The committee resumed at four o'clock.

Mr. GEARY: With your permission, Mr. Chairman, I should like to ask Mr. Beatty a question or two in order to straighten out a few matters in my own mind.

By Mr. Geary:

Q. Up to 1931, you did not happen to borrow in this way, Mr. Beatty?—A. No.

Q. You had been keeping a certain amount of cash as necessary in your business?—A. Yes.

Q. And you found then that you had to borrow? I understand you borrowed $20,000,000 from the Bank of Montreal one year, and renewed after that year?—A. Yes.

Q. Under the terms of the renewal?—A. Well, there was one part of it, $5,000,000 I think, which was for two years, and the balance renewable, and we renewed it for one year, so they both fell due in 1933.

Q. Was it in 1931 that you got the advance of $10,000,000 from— —A. The Chase Bank.

Q. Was that one year?—A. One year.

Q. You renewed— —A. It was.

Q. Was that arranged?—A. Yes.

[Mr. E. W. Beatty]

Q. In 1932 the Bank of Montreal renewed?—A. Yes.

Q. With the putting up of your security?—A. Yes.

Q. Which was Consolidated debentures?—A. Well, there was the security of the Lucerne bonds guaranteed by the Canadian Pacific, principal and interest, 100,000 Consolidated Smelters' shares, and the balance of the consolidated debenture stock of the Canadian Pacific Railway.

Q. And did the Chase people get security?—A. They got consolidated debenture stock for their loans.

Q. When you came into 1933 with these maturities coming due, you had $30,000,000 outstanding?—A. Yes.

Q. In March, or the latter part of February, I understand the American people began to be pressing for their loan?—A. They did not press us, because their loan was not due until August or July; but in view of the confused conditions in the United States, we knew, and later on they told us, they would like the loan to be liquidated.

Q. Knowing that Mr. Beatty, did you at that time exhaust the possibilities of renewal in the United States?—A. Yes.

Q. You took steps?—A. There was no use to try to float an issue in the United States at that time.

Q. You had that in mind and took steps to ascertain if that were the fact?—A. Yes.

Q. Later on, I understand the Bank of Montreal began to question you about the payment of theirs?—A. Oh, they asked for collateral and we promptly agreed.

Q. In 1932 you gave collateral?—A. That is what I thought you meant.

Q. After March, 1933, the Bank of Montreal began speaking of the payment of their $20,000,000 maturing?—A. Yes.

Q. And that started you on an inquiry as to how it should be made?—A. Yes.

Q. Skipping the others I want you to come down to your investigations as to the money market in England.—A. Yes.

Q. You had exhausted the possibilities of the United States, and you were told there on what you thought was good advice, that there was no market for your debentures in England?—A. That is right.

Q. Then Mr. Beatty, you decided to cover 1934 maturities as well as 1933?—A. Yes.

Q. Was it clear to your mind that there was no hope in 1934?—A. We had no conception of what it would be like in 1934.

Q. You considered that and used your judgment?—A. Undoubtedly.

Q. As to the possibility of getting it otherwise?—A. Yes.

Q. That induced you to consider the $60,000,000 outstanding?—A. Yes.

Q. You told us the story of that?—A. Yes.

Q. From the time you first had an inkling of the difficulty there would be in renewing, you took steps in each money market?—A. Yes.

Q. The three that you named, to avoid—well, not to avoid, because you had to do it—to arrange matters without recourse of going outside?—A. Yes, quite.

Q. That covers 1934 as well as 1933?—A. Yes.

Q. Then, to get it on the record, in England there is a certain amount of restriction on floating of issues at the moment; even internal issues, I believe were restricted in 1933?—A. Well, I understand so, but of course we were not an internal issue.

Q. But even on internal issues where yours was private?—A. Yes.

Q. With Australia coming in?—A. Australia was in at that time.

Q. Canada was coming in?—A. Yes, Canada was there.

Q. Possibly others?—A. I imagine so. They seem to think that the requirements of the market were being amply filled.

[Mr. E. W. Beatty]

Q. Anyway, it was clearly implied to you?—A. Quite.

Q. You had no hope of financing in the London market?—A. Very, very definite.

Q. You carried on negotiations, and it was said here that the Prime Minister addressed the Bank of Montreal. I see the letter is not addressed to the Bank of Montreal, it is addressed to Sir Charles Gordon, and it says:—

> You have explained to me the proposal which I understand has already been discussed with the Canadian banks for financing certain capital obligations of the Canadian Pacific Railway. . . .

Is that the reference?—A. That is true.

Q. To Sir Charles Gordon. So that the Prime Minister is addressing the gentleman, taking the matter up with the Canadian banks and acting with them in this recommendation?—A. That is quite right.

Q. May I ask just one other question for bookkeeping purposes? You have now $100,000,000 of 4 per cent debenture stock issued charged as a liability as an issued stock, I suppose, in your balance sheet?—A. No, the loan is charged as a liability.

Q. How do you account for that $100,000,000 liability?—A. We put it in the balance sheet as stock issued but held as collateral for loans which appear later on in the statement, and that is where the liability occurs. The $60,000,000 is named in our liabilities as a liability set up in the balance sheet.

Q. That is right. You show $100,000,000 not as a liability at the moment?—A. No.

Q. But you show it in your balance sheet as not bearing interest?—A. That is right.

Q. And the credit has, of course, been drawn on just as you need it?—A. Yes.

Q. You are paying no interest on the loan except as you draw on it?—A. No, we pay interest on the loan from the moment we got it. From the moment we got it we pay interest. On $35,000,000 from the 22nd June and $25,000,000 from the first of December.

Q. Then, you are carrying that money at interest and paying the interest on part of your loan at the same time?—A. Yes, we have overlapping, a certain overlapping, on account of the difference of the maturities.

Q. That letter is dated May 31, and one of the maturities were taken care of the same day?—A. Yes, the small one.

Q. But it is fair to assume that although the letter was written the same day as the money was advanced, it was in the minds of those who advanced it, that the matter was closed?—A. Yes, we paid it out of our own treasury.

Q. The letter had not been written, but you had an understanding subject to confirmation by the Prime Minister's colleagues that the letter would be written?—A. Right.

Q. At the time of the payment on the 31st May?—A. Yes.

By Mr. Coote:

Q. Mr. Chairman, I should like to ask Mr. Beatty a few questions. Why was it that so much of the money was borrowed in the United States? Was it because there was a shortage in Canada or because it was cheaper to get it in the United States?—A. Very cheap at that time.

Q. Was it cheaper in the United States than in England at that time?—A. Yes, no market in England for that borrowing at that particular time. The Chase bank came to us in 1931 and offered us $10,000,000 at a rate of $3\frac{3}{8}$ per cent.

Q. What would you have had to pay in Canada at that time?—A. About 6.

[Mr. E. W. Beatty]

Q. Can you tell the committee how long the company has paid dividends on both its common and preferred stock?—A. Right from the beginning, Mr. Coote, I gave that this morning.

Q. Never mind giving it, then. I wonder, as it is not before the committee, if you would be good enough to file with the Clerk a statement showing dividends paid on both common and preferred, since 1920?—A. Yes.

Q. You had some surplus earnings during those years which were set aside as a reserve?—A. Yes; most of it invested back in the property.

Q. I was going to get from you what form of property these reserves were invested in?—A. They were—

Q. Special classes of property?—A. Invested in fixed railway and steamship property and advanced to our control properties. Up to the end of 1932 that amounted to $174,950,000.

Q. At any rate, it was practically all invested in other property?—A. Yes.

Q. Would you say that the depression was responsible for the change in the credit conditions as they affect your corporation?—A. Undoubtedly.

Q. Would it be fair to add this: Did you anticipate this depression, or had you any reason to anticipate it?—A. I anticipated some depression, but nothing like this.

Q. Did your banker or financial adviser give you any hint of what was ahead of you?—A. I didn't ask him.

Q. Mr. Beatty, as a director of the Canadian Pacific Railway and also a bank director, did you use your influence either with the banks or the government to adopt any different policy which might have eased the credit conditions in Canada?—A. Well, Mr. Coote, I do not think I can divulge numerous speeches I have made to the directors of the Bank of Montreal on the general financing situation in Canada and what my views of the banks' attitude should be, because obviously that is a matter of confidential conference with the directors.

Q. Of courses, we are trying to find out whether bank directors direct, and what they do. That is the reason for that question.—A. Some of them seem to have a lot to say.

Q. I presume you would be glad to see any measures taken which would relieve the depression, from a business point of view?—A. Undoubtedly.

Q. How far will conditions need to improve, Mr. Beatty, so that the C.P.R. can again resume payment of dividends?—A. Well, if—of course we do not expect, within a limited time, to get back to the peak year of 1928, but if we could get back to a normal year, such as 1926, or 1927, the Canadian Pacific Railway Company could resume dividends.

Q. You would not anticipate any difficulty in operating your road, in a satisfactory manner, if we could return to the conditions of 1926?—A. No.

Q. Speaking as a business man, of course, not as a banker, would you like to see, possibly, more stability in the volume of business, and iron out those booms and depressions that occur every few years?—A. It would be a life-saver.

Q. Would this not be really the solution of a lot of your trouble as a railway operator?—A. Well, obviously Mr. Coote, if traffic in Canada increases so as to become practically normal, at least what we would say is normal for the last ten years of our experience, the railways would benefit as much if not more than any other part of the community.

Q. Speaking as a business man, would you say it would be worth while your making a real effort to bring about stable conditions?—A. Well, I think we—at least—

Q. I mean what you call a normal year, not the stabilization of present conditions?—A. No, I understand you.

Q. I think I remember noticing on one occasion that you were a member of the Stable Money Association, and I was trying to find out if you were really interested in that?—A. Well, I may have been a member, by compulsion.

[Mr. E. W. Beatty.]

Q. Coming back to the question of the loans outside of Canada, Mr. Beatty, I suppose it would be fair to say you could not renew them, at the same rate of interest?—A. No, we could not.

Q. Can you tell us what rate you would have had to pay if you could have renewed them in your negotiations that were carried on?—A. We could not renew anything at that time at anything less than $5\frac{1}{2}$ or 6 per cent. They are a little easier now, and I imagine we could get a moderate amount at 5.

Q. You are paying 5 per cent for the present loan?—A. Yes, paying 5 per cent on all our loans.

Q. Is that higher than what you had to pay before to Canadian banks?—A. The same rate.

Q. The same rate as you paid before on the Bank of Montreal loan?—A. Yes.

Q. Was a lower rate than 5 per cent discussed with the banks in connection with the $60,000,000 loan?—A. No, because it was the prevailing rate at the time the loan was made. If you are asking me if that rate is too high, I will have to say yes.

Hon. Mr. EULER: Speaking as a bank director.

By Mr. Coote:

Q. Thank you for anticipating my next question. I was going to ask you, speaking as a banker, if you thought it was too high?—A. Yes, for the C.P.R.

Q. And also as a business man?—A. Yes.

Q. Do you think it would be good policy if interest rates were lowered when business is slack, and raised when business is good? Would not that be good business policy?—A. I think rates should be as low as they can be made at any time in fairness to the banks who must protect their stockholders and depositors, and therefore, must have earnings. That is a question that would be answered probably better by a practical banker than by me, but there must be an interest rate which is fair, else commercial loans would not be as frequent as they should be.

Q. The question I was addressing to you in that connection, of course, would be in your capacity as a business executive. It would make it much easier for business?—A. Undoubtedly.

Q. You can only pay a higher rate of interest when business is good?—A. Reasonably low rates of interest are always good.

Q. The bankers have not, at any time, suggested to you that they had not plenty of money to loan—in connection with this $60,000,000—but just that they wanted the guarantee of the government?—A. They wanted security.

Q. Do you mind telling the committee whether you are a director of any other companies?—A. Yes; I am a director of very few, fortunately.

Q. I am not going to ask you to name them.—A. I will name them. Outside of the Canadian Pacific Railway Company, and its subsidiaries, I am a director of the Bank of Montreal, Royal Trust Company, the Sun Life Assurance Company, the Waldorf-Astoria Hotel in New York, the Royal Exchange Assurance Company, London, which has a local committee in Montreal and meets there infrequently, and, I think, I am a director of the Canadian Arena Company—which owns the Forum and the hockey team.

Q. It was not that I wished to get a list of the companies, but I wanted to base my next question on that, as to whether any of the other companies with which you are connected had a similar experience in regard to their credit requirements, whether they found themselves unable to renew some of their credit obligations.—A. I do not know of them, Mr. Coote.

Q. I wanted to find out if you had such an experience where they were able to get financial accommodation?—A. I would not imagine the bank would require accommodation of itself. That takes care of the Bank of Montreal.

[Mr. E. W. Beatty]

Q. They were able to get their accommodation from the ordinary depositors, I suppose. The fact you had so many directors helped you to get the loan originally, or do you think so?—A. No, sir. I do not believe I was at the meeting of the bank directors when this loan was passed upon, but of course that was not necessary.

Q. Do you think from your experience— —A. I am very glad you asked me that question because it brings up the whole question of the wisdom, or otherwise, of interlocking directorates. Now, there are six, as I told you this morning, directors of the C.P.R. who are also directors of the Bank of Montreal. Four of them were directors of the C.P.R. before they were invited to the Bank of Montreal board. The reason the Canadian Pacific Railway, for example, asks a man to come to its board, is the same reason that impels the bank to ask a man to come on its board. They want the benefit of his commercial experience and judgment applied to their affairs; and they also want him to assist them where he can in getting business and extending their business. Now, if the Bank Act was amended so as to prohibit a bank director being a director of any other commercial corporation, you would be confining your bank directors to men who have retired from business or men who had not reached any position in the community that would justify their being sought after by a bank. Now, if I can think of an alternative that would be satisfactory to interlocking directorates, I would be very glad of it only because of the implications that are drawn from it. The implications do not have to be true, in my judgment, but it is a fact that the public are apt to think that because this interlocking takes place there is influence exerted which cannot be exerted by others, and which may at times be improper. I do not think it exists, but that impression is very easily created by the existence of interlocking directorates.

Q. If bank directors were not allowed to be directors of any other concerns, the banks would still get all the business there is to get, would they not?—A. If you say the bank inferentially gets business in general pro forma that might be supported; but I do not think it is true, and I believe that our banks are entitled to the support and the judgment of the best business men that the country provides.

Q. You are familiar, I believe, with Reconstruction Finance Corporation of the United States, and the operations which are conducted by it?—A. Yes.

Q. Do you think it would be a good idea to have such an institution in Canada?—A. If it were necessary, it could be accomplished in Canada. Of course, the Reconstruction Finance Corporation have the control of enormous amounts of money, which they have applied in pursuance of government policy to assist railways and numerous other institutions and enterprises.

Q. I was going to ask you this question: from your experience as a railway man in regard to railway matters, is it not true that most of the railways in the United States have received financial assistance from the Reconstruction Finance Corporation?—A. Yes, that is true.

Q. As well as a good many other business institutions?—A. Yes.

Q. And the depression had affected credit operations somewhat similar in Canada to that of the United States?—A. Yes.

Q. The question I asked you was, of course, based on that idea. You feel it would be a good idea to have such an institution in this country?—A. I do not see any objection to it, if it becomes necessary. If our credit situation through the ordinary channels of banks is not sufficient to meet our needs, then I believe a similar institution that you mentioned would be effective.

Q. How can we find out whether it is necessary in Canada except through the heads of business corporations which find that their ordinary credit requirements or exchanging credit requirements are not being met with existing machinery?—A. That is the only way to ascertain them.

[Mr. E. W. Beatty]

Q. Do you believe it is good policy for the government to guarantee the present loan of $60,000,000?—A. I do not know a better loan that this.

The CHAIRMAN: That is asking a question that the jury have to answer.

Mr. COOTE: It is leading up to the question, Mr. Chairman.

By Mr. Coote:

Q. Might not the principle in connection with this loan be adopted by other business men in connection with their business?—A. If circumstances were similar.

By Mr. Donnelly:

Q. Mr. Beatty, I notice in your annual report for the year ending 31st December 1932 on page 10 the C.P.R. pledged $5,000,000 of bonds of Lucerne-in-Quebec Community Association. Can you tell me what the amount of the total investment is in Lucerne-in-Quebec?—A. About $6,000,000.

Q. I beg your pardon?—A. About $6,000,000.

Q. From whom did you buy?—A. We bought the bonds from the Bank of Montreal in 1933. Sold them in 1931 to the Bank of Montreal on the understanding that we would, if required, repurchase them within two years, which we did.

Q. Who were the directors of the company before you took it over?—A. I do not recall them. You mean the Lucerne company?

Q. Yes.—A. I do not recall their names now, sir.

Q. Were any of them directors of the C.P.R. before you took it over?—A. No, sir.

Q. What was the date you acquired it, 1931?—A. 1931, I think.

Q. Has there been any operating profit in any year since you took it over?—A. No.

Q. No operating profit?—A. No.

Q. What do you figure the total loss on Lucerne-in-Quebec since you bought it, if we take into consideration interest on money, depreciation, maintenance, upkeep and operating loss?—A. I would not figure that; I do not know off-hand. I cannot answer that question, Dr. Donnelly.

Q. Now, referring to another one of your hotels, when was the construction of the Royal York begun?—A. Completed?

Q. When did you begin construction?—A. 1928.

Q. When was it opened?—A. June, 1929.

Q. You put an addition on, did you?—A. We put that on in 1930.

Q. What was the total cost of the hotel?—A. About $16,000,000.

Q. You said there has been an operating profit. How much was it during the last year?—A. Since it was opened, $1,667,000.

Q. Does this include maintenance and repair?—A. Yes, sir.

Q. Including maintenance and repairs, there has been an operating profit on the Royal York?—A. Yes.

Q. No interest on capital, or anything?—A. No.

Q. Nor anything written off for depreciation?—A. No; we replace out of earnings everything that requires replacement. We do not charge depreciation on the steel in the building.

Q. You have no idea then, of your total loss—if there has been a total loss—taking into consideration interest on money, depreciation and operating expenses?—A. There will never be any loss on the Royal York; it is too valuable to us.

Q. You referred to the "Empress of Britain" this morning. Has there been an operating profit on that?—A. Yes.

Q. What is the total cost of the "Empress of Britain"?—A. $11,000,000.

Q. When was it completed?—A. June, 1931.

Q. What was the operating profit on it?—A. $1,227,000 since it started.

[Mr. E. W. Beatty]

Q. Is that taking into consideration the interest on it?—A. No.

Q. Just a——A. Just the operating profit.

Q. You do not know what the loss was?—A. I know she is earning more than the amount of her depreciation every year.

Q. You intended some time ago, did you not, to put up a hotel in London, England?—A. No, we just bought a site.

Q. You bought a site?—A. Yes, sir.

Q. What was the cost of the site?—A. A million pounds.

Q. Have you done anything to the site since then? Does it bring you in any revenue at the present time?—A. Yes.

Q. What revenue does it bring in?—A. It brings us in about ten thousand pounds a year.

The CHAIRMAN: Are we interested in the railway company's business? I am just wondering how far the committee wants to go into this.

Mr. DONNELLY: I submit, Mr. Chairman, that these are relevant questions.

The CHAIRMAN: I think they are very remote, Dr. Donnelly.

Mr. DONNELLY: I don't think so, Mr. Chairman.

The CHAIRMAN: I think you had better try to confine yourself to this subject matter.

By Mr. Donnelly:

Q. Have you purchased, or invested in, any other European or Asiatic hotels, or sites for these hotels?—A. No, sir.

Q. In the last four or five years?—A. No, sir.

Q. Have you, since 1921, made any investments in hotels in the United States?—A. No.

Q. Or any other securities?—A. No.

Q. You have an interest, I understand, in another railway in the United States. I understand that you control the Wisconsin Central through the Minneapolis, St. Paul and Sault Ste Marie Railway Company, and I understand there has been a deficit on the Minneapolis St. Paul and Sault Ste Marie Railway Company during the past few years, has there not?—A. Yes, sir.

Q. Have you paid those deficits out of the account of the Canadian Pacific Railway Company?—A. No. We have advanced them some money and they have returned some of it to us.

Q. I find in your report of 1932 the following:—

> To meet the deficit the Minneapolis, St. Paul and Sault Ste Marie Railway Company borrowed $6,117,361 from the Reconstruction Finance Corporation and the Railway Credit Corporation of the United States, your company guaranteeing the payment of the loans to the extent of $2,000,000.

Is that correct?—A. Yes, that is quite correct, because we were liable anyway under the old agreement.

Q. So that the situation is this, when they borrowed money in the United States the Canadian Pacific Railway Company guaranteed the obligations?—A. To a certain extent, yes.

Q. So that the guarantee of the C.P.R. was considered sufficient security for the loan by the Minneapolis, St. Paul and Sault Ste Marie Railway Company from the Reconstruction Finance Corporation and the Railway Credit Corporation of the United States, but when the Canadian Pacific Railway Company wanted to borrow the $60,000,000 from the Canadian banks they wanted the guarantee of the Dominion government?—A. Well, to the extent that we had to borrow.

Q. Do you control the Wisconsin Central, Mr. Beatty?—A. We have no direct control of the Wisconsin Central.

[Mr. E. W. Beatty]

Q. But the Minneapolis, St. Paul and Sault Ste Marie Railway Company paid the deficits of the Wisconsin Central and finally it passed into the receivers hands, is that not correct?—A. Yes.

Q. Now, Mr. Beatty, with regard to these capital investments which I have just referred to, that is, Lucerne-in-Quebec, the Royal York, the "Empress of Britain," and these other hotels in London, and so forth, how much money do you think you have in all those investments, somewhere about $125,000,000, is it not?—A. We had invested in the Soo Line $13,000,000. We have got back from them in dividends and interest about $26,000,000.

Q. Yes. So that on account of, well, we might say, investments during the past few years, or years when times were prosperous you might say, the C.P.R. is very much the same as some of the farmers, they invested foolishly or unwisely—

The CHAIRMAN: Do you think you had better ask that, Dr. Donnelly?

Mr. DONNELLY: Well, all right. Many of us have done the same thing in prosperous years and now we find ourselves in difficulty.

The CHAIRMAN: It is a matter of opinion.

Mr. DONNELLY: All right, I will leave it at that.

The CHAIRMAN: Are there any other questions of Mr. Beatty?

By Mr. Beynon:

Q. There is just one question, Mr. Beatty. This morning some reference was made to the stock held by the C.P.R. in Consolidated Smelters and the question of pledging it as security for a loan. Are they part of the security behind the Consolidated debentures of the company?—A. All our assets except subsidy lands are behind the Consolidated Debenture Stock.

Q. So that they would cover that as well?—A. Yes.

By Mr. Fraser (Northumberland, O.):

Q. Does the C.P.R. own the Consolidated Smelters entirely?—A. No, it controls, or it owns, about 52 per cent of the stock.

Q. Then in the statement you read this morning, Mr. Beatty, you made mention that some of these securities were payable in gold coin?—A. Yes, sir.

Q. What securities were those and what do they amount to?—A. That was the Consolidated debenture stocks I had reference to.

Q. And to what amount?—A. Well, it is the perpetual debenture stock, and our senior securities, naturally the principal never falls any, being perpetual.

Q. What is the sum total of those securities?

The CHAIRMAN: That has been gone over two or three times already.

The WITNESS: It depends what year you want, Mr. Fraser.

By Mr. Fraser:

Q. This last year?—A. I can give it to you. At the end of 1933 we had outstanding $515,911,000 of which two hundred and twenty-four and a half million was pledged as security for collateral bonds, leaving in the hands of the public $291,000,000.

Q. Well, is that purely a figure of speech as far as payment in gold coin is concerned?—A. Yes, quite.

Q. With regard to the $100,000,000 securities put up against the $60,000,000 loan, I understood you made the statement to Mr. Geary that these do not bear interest. I was rather under the impression that it would bear interest.—A. We are paying interest on the loan.

Q. But do not the securities carry interest?—A. The securities carry interest but not in favour of the lender because he gets his out of the loan.

[Mr. E. W. Beatty]

By Mr. Willis:

Q. Repeating the question I asked this morning, Mr. Beatty, are you in the position to tell the committee the outside payroll for 1933?—A. I am trying to get the information this afternoon, Mr. Willis.

By Mr. Jacobs:

Q. Does the Canadian Pacific Railway Company own any International Nickel Stock?—A. Yes, we have a little.

Q. What do you call a little?—A. About 10,000 shares.

By Mr. Bowman:

Q. You have had that for a number of years?—A. Yes, sir. I expect to make a profit on it, I might say, Mr. Chairman.

By Mr. Hackett:

Q. Will you tell us, Mr. Beatty, whether it was the disturbance in banking centres in the United States that first made manifest any possible difficulty of continuing the method of financing that you pursued up to March, 1933?—A. Well, that and the position in England, where there was not an available market for these securities.

Q. Somebody mentioned this morning the 8th of March as the date that the banking holiday was called in the United States. Can you say how long after that event that you became aware that you might have to revamp your plans for financing?—A. I should think it would be about that time, certainly in that month, Mr. Hackett.

Q. And what was the first step taken by the C.P.R. to meet the new situation?—A. Well, the first step naturally was a consultation with our own directors, and then with the Bank of Montreal, and then inquiries made both in New York and London as to the prospects in either place.

Q. Did the events in the United States have any reflection in Canadian banking circles?—A. Naturally it caused a great deal of apprehension.

Q. And how long did the negotiations extend, to learn what you could do in New York and London?—A. A few weeks.

Q. And how far did that take you towards May before you learned that renewals on the terms of the present advances could not be made?—A. As I explained this morning, Mr. Hackett, I outlined the situation to the Prime Minister on two or three occasions between March and May, and, on May 30th, I made the definite request of him that only by guarantee could we secure the requisite money. On that day he said "Well, I will consider it and take it up with my colleagues," and he took the information that I supplied him with to the government for conference.

Q. And previously through your bankers you had been negotiating with all the chartered banks?—A. I had sounded out all the chartered banks as to what their attitude would be in the event that that was necessary.

Q. And how long before the 30th of May did you learn from them that a guarantee by the government would be required?—A. Only a few days before.

Q. Only a few days before the 30th?—A. Yes, sir.

Q. And when did you first make it known to the Prime Minister that the banks would only lend to you if you could secure the guarantee of the government?—A. On that day, the 30th of May.

Q. Not until then?—A. Well, as I intimated, many things were going through my mind, and it was only until after I had completed my discussion with the banks that I had a definite plan to submit to the Prime Minister, a definite request to make of him.

Q. So that your first definite request for a guarantee of the loan from the banks was made on the 30th of May?—A. After I had exhausted those preliminary inquiries.

Q. Some reference has been made into the lines in the United States. Are they part of the C.P.R. system or what?—A. No, sir. They are entirely separate.

Q. Yes, but are they feeders of the C.P.R.?—A. Yes.

Q. And operate in conjunction with it?—A. The basis of our arrangements with these companies was away back in the 90's, I think, when it began, through Sir William Van Horne, an arrangement for interchange of traffic between the Canadian Pacific Railway and these railroads which was considered to be then —and did prove to be for many years afterwards—a very valuable thing to us. On the strength of that we made our investment and we made a traffic contract with them that compelled them to interchange with us all the freight that they control from that territory.

Q. Are your ships and your hotels, and Lucerne as well, operated in conjunction with the railway, are they part of the general scheme?—A. Yes. The ships are operated by what is known as the Canadian Pacific Steamship Company which is purely an operating company, the ships being owned entirely by the Canadian Pacific Railway Company—and the Canadian Pacific Railway Company act as traffic agents and collectors for the ships—but the ownership remains with us.

Q. And what about the hotels?—A. The hotels are part of our system, except Lucerne, which is separate, of course.

By Mr. Geary:

Q. How much territory does the Soo Line take in?—A. It runs from Minneapolis to a place in Montana or North Dakota,—I have just forgotten the name of it. It goes across the whole territory from Minneapolis through North Dakota, and, in ordinary times, is a very successful railway.

Q. The line from Sudbury to the Soo, is that part of it?—A. No, that is our own. That is the Algoma Branch I spoke of to-day, Mr. Geary.

By Mr. Raymond:

Q. You answered Mr. Hackett, I think, that it was only on the 30th May that you told Mr. Bennett that you required the guarantee of the government? —A. That was the first time I made a definite request.

Q. I understand you had many conversations with Mr. Bennett between March and the end of May?—A. Several, yes sir.

Q. Were you discussing the financial difficulties of the C.P.R.?—A. No. I was discussing with him the possibilities of our being able to raise money through the ordinary channels including the banks.

Q. Was he consulted as an advisor or what?—A. He was being informed as to what our position was, from month to month.

Q. Did it concern the government?—A. No, but I was preparing him so that he might be receptive—if we had to consult the government.

The CHAIRMAN: Gentlemen, are there any further questions to be asked?

By Hon. Mr. Euler:

Q. In your opinion, Mr. Beatty, would it have been possible to raise the money required if you had paid a higher rate of interest?—A. No, sir.

Q. Quite impossible?—A. I don't think so. From the attitude of the banks at that time, Mr. Euler, I would not think they were prepared to do it. Mr. Howard asked me if I would obtain for him during the adjournment a statement showing fluctuations in the stock of the company for the last ten years,

which I have done. I do not imagine the committee need to hear it; I can hand it to the reporter and it can be included in the evidence, if you wish it. It is from 1924 to 1933. He did not indicate the purpose of the inquiry but, of course, the information was public.

The CHAIRMAN: Do you want it put in the record?

Mr. HOWARD: Yes, that is quite satisfactory, Mr. Chairman.

FLUCTUATION IN THE STOCK OF THE COMPANY

Ordinary stock	Year	High	Low
	1924	156	145¼
	1925	152½	137
	1926	169½	147
	1927	218	165
	1928	255	198
	1929	265	187½
(Split)	1930	58	35
Par value reduced	1931	45¼	12¼
from $100 to $25	1932	22⅞	8½
	1933	20	9

By Mr. Sanderson:

Q. Could Mr. Beatty give the committee information as to what proportion of the stock is owned in Canada—

The CHAIRMAN: That is all in the record, now, Mr. Sanderson.

By Mr. Power:

Q. Mr. Beatty, did the Canadian Pacific Railway Company purchase any United States properties in the United States since 1931?—A. Well, yes. There is a small railway in Maine called the Aristook Valley Railroad Company a potato road in which we had a substantial interest, and the owner of that railroad—Senator Gould—made a request of us that we take over his holding, which we did as the result of an arbitration; and we do not regret the transaction.

Q. What did you pay for it?—A. A small amount of money, a few hundred thousand dollars.

Q. Was this money supplied out of the proceeds of the government loan?—A. No, this was all before.

Q. I understood it was purchased, that is the Gould shares were purchased in 1932?—A. Well, no. We started the arbitration in 1931. I think the negotiations for that road lasted for over two years, that is, as to reaching the exact price. I do not know the exact date of the acquiring but it was a long drawn out thing.

By Mr. Jacobs:

Q. Has that any connection with the St. John Valley road?—A. Yes, in connection with our own line and with the Aristook Valley Railroad of Maine.

By Mr. Power:

Q. I understood you to say, Mr. Beatty, that the Chase National Bank provided you with a loan of $10,000,000 at 3-3/8 per cent?—A. Yes, sir.

Q. Well then, in the schedule which we have before us, this loan appears to be made at the rate of 5 per cent.—A. That is the renewal. That was the first year, Mr. Power.

Q. Do I understand you to say that this was a renewal of the loan?—A. No. They renewed it at a higher rate and with collateral.

Q. And I suppose the Bank of Montreal loan always remained at the same rate of 5 per cent?—A. That is my recollection, 5½ per cent.

[Mr. E. W. Beatty]

Q. You said a moment ago that you did not know of a better loan?—A. Yes.

Q. Than the C.P.R. loan from the Bank of Montreal?—A. This loan.

Q. Oh, this loan?—A. Yes.

Q. As a director of the Bank of Montreal did you urge that on the bank when they refused to renew it and forced you to go before the government for a guarantee?—A. The Bank of Montreal, of course, have their own view as to loans. The reason I said that, that I regard it as a good loan, is because the collateral is adequate and the earning power of the company, under anything like normal conditions, is very very large and should not make any banker apprehensive.

Q. So it was a real good loan before it was guaranteed at all?—A. I thought so.

By Mr. Jacobs:

Q. Mr. Beatty, you speak about the attractiveness of the interest paid to the Chase National Bank, but when you take into consideration the premiums that were paid in American funds it was not so attractive?—A. No, that was not a thing we anticipated, Mr. Jacobs.

By Mr. Stanley:

Q. Mr. Chairman, for the purpose of the record, Mr. Beatty ought to say why this is considered an unusual loan?—A. Because, at the time it was made, the banking situation was very disturbed, both in the United States and in Canada. The period of the loan was longer than the banks desired to put up their money under ordinary circumstances, and the amount of the loan was large.

Q. I think every person understands what a banker's loan is, but the length of time and the nature of the loan makes it an unusual loan?—A. That is it.

By Hon. Mr. Euler:

Q. Mr. Beatty, I understand a portion of the loan from the Bank of Montreal was drawn from the New York branch of the bank?—A. Well, it was advanced to us in New York.

Q. Was it for use in the United States?—A. No, not particularly.

Q. Well, when it was drawn into Canada were you obliged to pay exchange?—A. Yes, when it was repaid.

By Hon. Mr. Ralston:

Q. Just following up the questions asked by Mr. Hackett, did I understand you to say, Mr. Beatty, that in these previous conversations, previous to May 30th in which you had discussions with the Prime Minister, that you might have asked the government to guarantee the loan?—A. No. If you did understand it that way, Colonel Ralston, that is not what I intended to convey. I did outline the whole situation to him, but I made no specific request of him.

Q. You made no specific request of him, but was the possibility of the government having to guarantee the loan discussed in some of these previous conversations?—A. I don't think so.

Q. And the conversation with Sir Charles Gordon in which you asked him to sound out the other banks, was that not in connection with the same thing?—A. Oh, yes, I discussed it with him.

Q. You discussed it with Sir Charles Gordon; the possibility was what the banks would do to a proposition for financing money on a government guarantee?—A. Yes, and I told the other banks that myself. I mean I put that as a hypothetical case. I asked them what their reaction to it would be.

[Mr. E. W. Beatty]

Q. But you think you did not mention it to the Prime Minister at all while you were discussing it with Sir Charles Gordon?—A. I don't think so, no. I did not want to embarrass Mr. Bennett at all until I had to.

Q. You never suggested to him the matter of a guarantee?—A. Not until I had to, and that was the 30th May, as I recollect it.

By Mr. Spencer:

Q. Might I ask how the interest is computed, annually?—A. Simple interest payable half-yearly.

By Mr. Irvine:

Q. I am not clear as to why it was necessary to obtain part of the money from the Bank of Montreal branch in New York. How much was obtained from there?—A. Seven and a half millions.

Q. When you used that in Canada it would be very profitable for the Bank of Montreal in New York, would it not?—A. Oh, no. At that time, of course, we did not have so many difficulties in the matter of exchange as developed later. As a matter of fact, I think when the original loan was made there was no premium on American funds. I am only speaking from recollection, but it would not have been very serious.

Q. I see, this is an old loan?—A. Yes, this is 1931.

Q. I understood that part of the money that you got from the Bank with the government guarantee was raised in New York?—A. Oh, no.

By Mr. Power:

Q. You said in answer to Mr. Hackett, I think, that after you came to the conclusion that it would be at least very difficult for you to secure any further advances you reported back to your Board of Directors?—A. I discussed it with our executive committee on more than one occasion.

Q. Was there a minute of the board of directors?—A. There was a minute —the minute I referred to this morning—of the 12th June, the minute which authorized the loan.

Q. But was there any minute authorizing you to enter into negotiations with the government with a view to obtaining a guarantee of this loan?—A. The whole matter was left in my hands to deal with it as best I could. I reported to the directors what I had in mind.

Q. There were no minutes of that meeting of the board of directors or of the executive?—A. There was one minute, Major, that referred to this. I do not recall the date of it, but in which I said I hoped to be able to do certain things. That is all I can recall of that.

Q. Would it be asking too much to inquire if that could be produced?—A. Oh, yes, no reason why you should not have it.

Q. At the shareholders meeting, of the 3rd of May, was this matter of a government guarantee discussed?—A. No, sir.

The CHAIRMAN: Gentlemen, is that all? Thank you, Mr. Beatty.

Witness discharged.

Mr. JACKSON DODDS, called.

The WITNESS: Mr. Chairman, gentlemen, I appear to-day as the General Manager of the Bank of Montreal. I have prepared a little memorandum which, with your permission, I shall read, and then, if you wish to ask me any questions, I shall be glad to answer them.

The relationship between the Canadian Pacific Railway Company and the Bank of Montreal has been that of a depositor and borrower on the part of the

[Mr. Jackson Dodds]

railway company while the bank has acted as the depository and lender and has assisted in the underwriting of securities for the Company since the days of the construction of the railway to the present time.

It has long been the Company's practice to provide for its requirements by the sale of long term securities in the market, but continuing unsettled conditions compelled it, in 1931, and subsequent years, to resort to short term borrowing.

A statement of the Canadian Pacific Railway Company's obligations and balances at the Bank of Montreal, from March, 1931, to date, has been prepared and copies are available for members of your committee. (See Appendix "A".)

In explanation may I say that, in March, 1931, the Bank purchased from the Canadian Pacific Railway $5,000,000 15 year 5 per cent bonds covering the Lucerne-in-Quebec property, guaranteed as to principal and interest by the Canadian Pacific Railway who undertook to repurchase the bonds within two years from the date of the purchase by us.

In May, 1931, the Canadian Pacific Railway sought a loan of $15,000,000 for two years from a strong financial group. The loan could have been obtained from them but the interest rate was not considered sufficiently attractive by the railway company and the Bank of Montreal then agreed to advance the amount for one year, with option of renewal for a further period of one year.

In June, 1932, when the question arose of extending the $15,000,000 loan for a further period of one year, the Bank expressed the opinion that, in view of the changed conditions since the loan was made, the bank should have some security for this advance. The company agreed and hypothecated $20,000,000 of 4 per cent consolidated debenture stock.

On 27th March, 1933, the railway company repurchased the $5,000,000 Lucerne-in-Quebec bonds by borrowing an equivalent amount from the bank and pledging as security 100,000 shares of Consolidated Mining and Smelting Company of Canada stock and the $5,000,000 Lucerne-in-Quebec bonds.

On 31st May, 1933, which was on the eve of the Prime Minister's departure for England, Honourable R. B. Bennett wrote the Bank of Montreal to the effect that he appreciated that the foreign markets were closed to the Canadian Pacific Railway as a result of disturbed economic conditions, but understood a number of the Canadian banks were willing to advance the Railway Company $60,000,000 for five years, secured by the pledge of 4 per cent Consolidated Debenture Stock of the Railway Company of par value $100,000,000, to meet certain capital obligations of the Company maturing between 1st June, 1933, and the end of 1934, providing the Dominion Government would guarantee the repayment of principal and interest. The Prime Minister agreed to provide the Banks with this guarantee and requested that there be no delay in making the arrangements between the Company and the Banks as a substantial part of the loan was required by the Company almost immediately. It is true that this did not give the Banks security from the Government of Canada, but relying on his word the Banks were satisfied to make the advances.

The loan was required by the Railway Company in two instalments, $35,000,000 on the 22nd June, 1933, (secured by the pledge of $58,334,000 Consolidated Debenture Stock) and $25,000,000 on the 1st December, 1933, (secured by the pledge of $41,666,000 of Consolidated Debenture Stock).

The apportionment of the loan was based on the capital and reserves of the banks as at 31st December, 1932, with the exception that two of the banks who comprised the syndicate took less than the amount allotted on this basis—the Bank of Montreal taking an increased allotment. Copies of the schedule giving full particulars of allotments of the banks and of the first and second instalments with consolidated debenture stock pledged as security have been prepared and are available for the members of your committee. (See Appendix "B.")

[Mr. Jackson Dodds]

Part of the proceeds of the first instalment of $35,000,000, advanced on 22nd June, 1933, (of which the Bank of Montreal's share was $13,093,000) were used by the Company to repay the Bank of Montreal loan of $15,000,000 secured by $20,000,000, 4 per cent consolidated debenture stock.

On 29th November, 1933, pursuant to the informal undertaking of the Prime Minister, Order in Council P.C. 2490, authorizing the Minister of Finance to enter into an agreement with each of the lending banks guaranteeing repayment at maturity of the whole or of any unpaid balance of the loans with interest at 5 per cent per annum, was approved by His Excellency the Governor General.

On 1st December, 1933, the second instalment of the loan, amounting to $25,000,000, was advanced by the banks against the pledge of consolidated debenture stock of par value $41,666,000. The Bank of Montreal's share of this instalment amounted to $9,351,000. Out of the proceeds the railway company retired the loan from the Bank of Montreal of $5,000,000.

After these transactions the loans of the Bank of Montreal to the Canadian Pacific Railway totalled $22,444,000, secured by consolidated debenture stock of par value $37,406,000, and the guarantee of the Dominion Government.

By Mr. Power:

Q. Mr. Dodds, I have only had time to glance over this schedule of the obligations of the Canadian Pacific Railway to the Bank of Montreal. As I understand it, however, on June 22, 1931, there was a loan to the Canadian Pacific Railway of $20,000,000 with a surplus of protection of $9,000,000?—A. That is including the cash to their credit; besides the $5,000,000 Lucerne-in-Quebec bond which was guaranteed by the Canadian Pacific Railway, there was no security at that time.

Q. Now, June 22, 1932, was the time that the loan was renewed, was it not, or thereabouts, and you obtained additional securities to the extent of $20,000,000 of Canadian Pacific Railway 4 per cent consolidated debenture stock?—A. That is right.

Q. And you show this for the $20,000,000, and you estimated the value of the collateral at $10,800,000?—A. Yes.

Q. What collateral was that? That was the Lucerne-in-Quebec bonds as well as the C.P.R.?—A. That was really the value of the Canadian Pacific Railway Company's 4 per cent consolidated debenture stock. We made no estimate of the value of Lucerne-in-Quebec bonds.

Q. You valued it at approximately 50 per cent of its face value, is that it? —A. That was the market price at that time.

Q. So that you had a surplus of $3,291,000 of protection?—A. With the cash there was to their credit.

Q. I beg your pardon?—A. With the cash which was to their credit.

Q. Good security, is it not?—A. Splendid.

Q. In February, 1933,—February 22, 1933,—the obligation was $20,000,000, the market value of the collateral was then $11,000,000 and the cash at the credit of the company was $9,807,000?—A. That is right.

Q. You had then, an over surplus of protection of $807,000?—A. That is right.

Q. In order to protect yourself still further—

Mr. Geary: No, a surplus of $3,000.

By Mr. Power:

Q. I am told by Col. Geary that you only had a surplus of $3,000?—A. That is so, on 22nd August, 1932, but I have no doubt that if we had asked for some further security, which we did not, it could have been readily made available, as the Canadian Pacific Railway had lots, as I learned this morning.

Q. You had an ace in the hole?—A. Yes.

[Mr. Jackson Dodds]

Q. March of 1933, during the time that these negotiations were going on, you asked the Canadian Pacific Railway Company to add to the security which was pledged to you, certain other securities and they pledged 100,000 shares of Consolidated Mining and Smelting?—A. Yes.

Q. Giving them in March, 1933, a surplus of protection of $7,416,000?—A. Once more including the cash.

Q. And in April there was still the same obligation but the market value of the collateral had risen to $20,600,000, making a total of $30,770,000 and the surplus of protection was $10,770,000?—A. Right.

Q. And then again on May 27, two days before, or three days before, it was considered necessary to obtain a guarantee from the government, you had a surplus of protection of $14,115,000?—A. That is right, yes; that is so.

Q. Don't you think you should be rather inclined to take Mr. Beatty's idea and say that that must have been a very good loan to make with a surplus of protection of $14,000,000?—A. I always thought it was a good loan, but the point at the moment was, what was going to happen from there? What was going to happen from there on; and the railway company decided to get a renewal for five years. That is another story altogether. It was an exceptional loan, exceptional conditions, and as you know banks do not make loans normally, for five years.

Q. And would it not have been possible for you to give them a renewal for two years, or for one year?—A. I think there would have been no difficulty at all. I should have been very glad to recommend a renewal of the loan for a year, but that was not the point. They had a lot of other obligations falling due, and they wished to get the whole amalgamated. It was a question then not of the Bank of Montreal loaning the C.P.R. $20,000,000 against the security they had—knowing there were other securities available—but the question of the $60,000,000 loan for five years.

Q. Insofar as the Bank of Montreal was concerned, I take it Mr. Dodds from you, the Bank of Montreal did not need any further security?—A. Not the bank?

Q. They were sufficiently protected according to what you have just told us. Why did not the C.P.R. go to the government and ask for a guarantee of $40,000,000—it is pointed out to me by my friend that it could have come off its 1933 operation. I am speaking roughly now, but it would have been a guarantee of only $10,000,000. Is that about right?—A. That is a question, it seems to me, that should be asked of the C.P.R.; but my understanding of this is that they wished to consolidate all these obligations, and be assured of enough money, and they wished to get the full amount. All their arrangements were made with the idea that they would not have to worry unduly for the next five years.

Q. Am I to believe from your answer that the only reason the C.P.R. had for coming to obtain a guarantee of $60,000,000 from the people of Canada was their own convenience in bookkeeping?—A. No. I think it was explained very fully to this committee that these bonds and obligations were maturing in the United States and Canada. They wished to consolidate the whole. They could not renew.

Q. They could not renew in the United States, but you yourself told us that insofar as the Bank of Montreal was concerned, this loan of $20,000,000 was a good loan?—A. I still say it was a good loan.

Q. You still say it was a good loan?—A. I still say it was a good loan.

Q. That would mean $17,000,000 approximately for the requirements of the C.P.R. in 1933 for which they required a government guarantee, including foreign obligations?—A. I was not asked the question as to whether we would renew for another year. I was told the railway company wished to renew their obligation in the trying time, and consolidate their indebtedness, which was a conservative thing to do, and cover a five-year period, including loans that they could not renew.

[Mr. Jackson Dodds]

Q. But in any case, insofar as the Bank of Montreal was concerned, the C.P.R. was not faced with the alternative of default or not to default if they had not paid the Bank of Montreal loan?—A. That is right.

Q. I beg your pardon?—A. That is right; we had not called on them.

Q. Apart from the loan to the Bank of Montreal, the only maturities they had to meet during the year 1933 were approximately $13,000,000?—A. You have the statement.

Q. It may be $12,000,000?—A. Well, there was $10,000,000 owing, I suppose, to the Chase Bank; $1,000,000 to the First National Bank of Chicago; $2,500,000 to the Northern Alberta Railway—more than $12,000,000.

Q. Nearly $20,000,000 without checking it over?—A. Oh.

Q. Was not the C.P.R. credit good for another $20,000,000 loan?—A. No, sir.

Q. It was not?—A. No.

Q. You state that definitely?—A. I state that is too big an amount for any one organization by the Bank of Montreal.

Q. I am inclined to agree with you. Would it have been too big an obligation for all the banks of Canada?—A. Well, as they loaned more than that, evidently it would not have been.

Q. Did you, Mr. Dodds, take part in the negotiations with the other banks in order to induce them to take a share in this loan?—A. No, I did not take part in the actual negotiations. I do not think they required much inducing.

Q. You say they did not require much inducing? This loan with a guarantee from the government was a high grade loan, if I may so express it?—A. It is generally conceded that anything guaranteed by the Dominion of Canada is a high grade loan.

Q. As well as being general manager of the Bank of Montreal, you are president of the Canadian Bankers' Association, are you not?—A. Yes.

Q. Were you president of the Canadian Bankers' Association at the time?—A. No.

Q. When were you elected?—A. Mr. McLeod was president before I was elected in November, 1933.

Q. Do you remember at about what date it was that the Canadian Pacific Railway first desired to consolidate its debt, or if I may express myself this way, consolidate the $60,000,000 and get further loans. About what time was that?—A. No, I do not remember the dates. I remember that there had been conversations around that month with a few of the banks.

Q. Around the month of March?—A. No, around the months of April and May in regard to this question.

Q. Perhaps this may be along another line of thought, but the effect of the raising of this loan in Canada from the banks and the payment to United States' banks of their loans unfroze credit in the United States and froze it to a certain extent in Canada?—A. As far as that $60,000,000 is concerned, obviously it is for five years, and therefore to a certain extent you can describe it as being a frozen credit for five years; but as far as credit in Canada is concerned, all the banks have money they will be glad to loan.

Q. Well then, I suppose the obvious question now is, why didn't they loan to such a good corporation as the C.P.R. without government guarantee?—A. Well, in the first place they were not asked.

Q. They were not asked to loan without government guarantee?—A. As far as I know these banks were not asked except this one transaction, whether they would take their share of it.

Q. Was it the Canadian Pacific Railway or the bankers that first mentioned the question of government guarantee?—A. I cannot tell you which it was. I should think it was probably the banks that said, if you want the accommodation for five years, you will certainly have to get the government to guarantee.

[Mr. Jackson Dodds]

Q. You do not know when that occurred of course?—A. Well, about the same time.

Q. That is, in March?—A. No; as I said before, about April, or May.

Q. Now, as president of the Bankers' Association, are you prepared to say that the banks that advertise in the press, particularly those days, have large sums of money ready to advance to any good security? Are you prepared to say that the banks would not have advanced to a corporation like the C.P.R. without government guarantee?—A. I do not remember any bank advertising.

Q. For one year?—A. I do not remember banks making a statement that they would loan for any purpose against any good security, but banks certainly had money to loan, and whether any one would want to take a share of $60,000,000 under the conditions that were then found, for one year, you would have to ask each bank individually. We ourselves were prepared to carry along our loan.

Q. $60,000,000 was not absolutely necessary, as you well know, at that time?—A. Yes.

Q. It was not necessary. If they were not prepared to take a share of the $60,000,000 would you have been prepared to take a share of the surplus over the $20,000,000 which was owed to you?—A. That is a hypothetical case. They were never asked; I do not know what their answer would have been.

Q. You state positively the banks were never asked to loan money to the C.P.R. except on government guarantee?—A. To the best of my knowledge they were never asked.

By Hon. Mr. Euler:

Q. May I ask you this question: I think I understood you to say that the whole of this $60,000,000 was advanced to the Canadian Pacific Railway by December, 1933?—A. Correct.

Q. I suppose from that date on they paid you interest at the rate of 5 per cent per annum?—A. That is so.

Q. This morning in reply to a question by myself, I think Mr. Beatty said all they needed was approximately $40,000,000?—A. Yes.

Q. That is, the other $20,000,000 was required for the retirement of maturing securities in 1934? Now, it just occurs to me, why would the C.P.R. borrow $20,000,000 which they did not need, and upon which they had to pay you 5 per cent interest. What would they do with the extra $20,000,000 until such time as they actually required it?—A. They would place it on deposit in different banks.

Q. And they got what rate of interest?—A. I do not know what rates, varying rates. I have no idea of the rates.

Q. Were they obliged to take the extra $40,000,000 under the terms of the loan?—A. Well, they applied for a loan of a certain amount on a certain day, and they got it. I think that question should be addressed to the company.

Q. I understand Mr. Beatty is no longer here. It would seem to me that that does not appear to be very good financing, to borrow money upon which you had to pay a high rate of interest if you did not need the money.—A. If you had a lot of money you would not want to keep it idly around for six months so as to be sure to be able to loan it.

Q. In other words, the banks would insist that they take the whole $60,000,000?—A. No, the banks were not insisting; because they were asked for the loan on certain terms and the banks granted it.

By Mr. Howard:

Q. A few minutes ago you were discussing the different loans made by the C.P.R. and you said the original loan that you loaned the C.P.R. was made at four per cent?—A. Yes.

Q. That was under the security which they gave you as collateral, four per cent debentures and $5,000,000 in Lucerne-in-Quebec bonds?—A. No, Mr. Howard; at the time when the rate was four per cent we had not that security. Part of the loan was in New York where the rates were low, and part in Canada, $7,500,000 each, I think.

Q. Afterwards, you renewed the loan, and when the renewal was asked for, you increased the rate to five per cent. Is that a customary transaction?

Mr. Power: Very reprehensible.

By Mr. Howard:

Q. I wanted Mr. Dodds' opinion.—A. No; I would not say that. This rate was fixed on the value of money at the time in the United States and here, and Mr. Beatty, I think, said he paid a higher rate than that, or as high a rate, to the New York bank—whatever it was, it will be in the record—

Mr. Bowman: $5\frac{1}{2}$ per cent.

The Witness: One of the members said he paid $5\frac{1}{2}$ per cent.

By Mr. Howard:

Q. A moment ago you said you had assisted the C.P.R. in the selling of its securities at different times, as you have in many concerns. It is possibly a proper way to handle securities. When you handle securities for resale, do you get an underwriting fee besides your interest rates and general charges?—A. We get an underwriting commission of some kind as a rule, yes, which in many cases we have to share with a lot of people.

Q. Mr. Dodds, the Chase National Bank have loaned the C.P.R. $10,000,000 at the time when you had loaned them $20,000,000?—A. Yes.

Q. Have you any stock control, or what arrangement have you—perhaps that is not a fair question—do you have some arrangement with the Chase National Bank in Montreal? Do you work together?—A. No.

Q. Have you your own bank in New York?—A. We have agents of the bank, who are our own men paid by the Bank of Montreal.

Q. It means that your business is handled through the Chase National Bank?—A. No, handled through our own people in New York.

Q. Well, it goes without saying, that when foreign countries were paid their debts, which evidently was one of the reasons why you asked for further securities, it would mean that you were paying off foreign loans with Canadian money. In that connection may I ask you this: Would that affect in any way the general credit situation of the Canadian borrower?—A. No, we had money for them so far as the Bank of Montreal is concerned. We have been looking for good commercial business steadily in the last two years.

Q. When you showed in your statement here the balances in cash at the credit of the company, which you took eventually, under consideration in connection with the collateral loans, is it not true that some of these accounts were trust fund accounts, what we call pension fund accounts and so on?—A. No, I think not, Mr. Howard. There would be accounts from Winnipeg and Montreal, and so on.

Q. Of the different branches? I noticed this morning in the evidence that was given by Mr. Beatty and the table filed before the committee, that the exchange paid ran into very great figures?—A. Yes.

Q. Did you not foresee at that time that exchange would go to par? Of course I say that because I realize bankers know more about other peoples' business than they do themselves.—A. I wish I had known.

Q. You could have saved the Canadian Pacific Railway some money?—A. I might have made a little for myself.

[Mr. Jackson Dodds]

Q. I would like to ask you one more question along this line. You said that the banks had plenty of money to loan. I suppose you notice the ads that banks have been running in local papers all over the country in the last 45 days. You notice that they have been changed from what they were 45 days previously?—A. Yes, they change all the time.

Q. Is there any special reason for the ad that is put in now?—A. Well, there is a very good reason. Some people have the idea that banks have not any money to loan for good commercial purposes. I was desirous that everybody from one end of Canada to the other should know, whatever may apply to anyone else, that we have money to loan for commercial purposes.

Q. Regardless of this money proportionate to your capital, you still have plenty of money to loan?—A. Yes.

By Mr. Raymond:

Q. In referring to the letter signed by Mr. Bennett and addressed to Sir Charles Gordon, and dated May 31st, 1933, I read the following paragraph:—

> You have explained to me the proposal which I understand has already been discussed with the Canadian Banks for financing certain capital obligations of the Canadian Pacific Railway Company which mature between the 1st of June next and the end of 1934, amounting to approximately sixty million dollars.

Mr. Bennett states in this letter that Sir Charles Gordon has already explained to him the proposal?—A. Yes.

Q. Well, when were those explanations given to Mr. Bennett?—A. Well. as I understand—

Q. Surely it would be previous to May 31st?—A. Well, I understood from Mr. Beatty's evidence that it was on the 31st May.

Q. No, no. Mr. Beatty was speaking for himself, but Mr. Bennett writes to Sir Charles Gordon:

> You have explained to me the proposal...—A. Yes.

Q. I want to know when this explanation took place and where?—A. Well, you had better ask Sir Charles Gordon because I was not there. But I will tell you to the best of my knowledge, I believe it was on the 30th May.

Mr. RAYMOND: Well, I am going to apply to have Sir Charles Gordon brought here so that I can ask him.

The CHAIRMAN: I think you will get that from Mr. Bennett himself; he is probably the best witness on that point.

By Mr. Raymond:

Q. At the moment, Mr. Dodds, you say you do not know anything about that?—A. No, I did not say that. My understanding was that it was on the 30th May, but I cannot be certain of the date.

Q. But this letter refers to an explanation given by Sir Charles Gordon. The letter is addressed to Sir Charles Gordon. The explanation may have been given by somebody else, perhaps some other official of the Bank of Montreal, but you don't know anything about it?—A. Nothing further.

Q. Pardon me?—A. Nothing further than that it was just around that time.

Q. You had not given any explanation to Mr. Bennett yourself?—A. No.

Q. Mr. Bennett also states in the letter that the proposal had already been discussed with the Canadian banks, and later on in the letter it is said that the banks are prepared to advance the required amount if the government will guarantee payment of the principal and interest. Mr. Beatty this morning stated that the Bank of Montreal was negotiating with the other banks. Do you know anything about those negotiations?—A. Sir Charles Gordon spoke to some of the other banks, in fact he may have spoken to all of them.

[Mr. Jackson Dodds]

Q. But personally you don't know anything about it.—A. Personally I don't.

Q. Sir Charles is the person who knows everything about it?—A. He went to the other banks, yes.

Q. Of course, on that day, previous to May 31st, 1933, you had not yet received this letter in which Mr. Bennett says he is willing to guarantee the loan of $60,000,000 to the Canadian Pacific Railway Company?—A. No.

Q. What guarantee had you previous to this letter that the amount would be guaranteed by the government?—A. We did not have any guarantee at all.

Q. What guarantee did you have to refer to the other banks in order that they should subscribe to the loan?—A. This letter expresses the view that Sir Charles has explained the proposal which was made.

Q. As a matter of fact, is this the only letter which was sent by Mr. Bennett on behalf of the government?—A. Yes.

Q. He was willing to guarantee the loan?—A. Yes.

Q. According to that letter?—A. According to that letter, yes.

Q. This letter is signed only by Mr. Bennett. Was the bank satisfied with that guarantee?—A. Well, I have stated in the memorandum I read that the banks were satisfied.

Q. No, but Mr. Bennett is not the whole Cabinet—he is not supposed to be anyway?—A. I would like to point out that the letter states distinctly "I have discussed the matter with my colleagues."

Q. Had you any assurance that the other Ministers would concur?—A. This letter states:—

> I have discussed the matter with my colleagues and we have decided that in the public interest the railway company should be placed in the position to meet the obligations in question and the government will therefore guarantee payment of the principal and interest of the loan.

We were perfectly satisfied with the letter from the Prime Minister in those terms; and we have accepted similar assurances—not always in writing at the moment—from other Premiers, for instance, of Alberta, Saskatchewan and Manitoba, with regard to the wheat pools.

Q. Well, was this letter handed to the other banks which have participated in the loan?—A. Well, I do not know that this letter was handed to the other banks. It is just a letter to Sir Charles.

Q. No, between the 31st May and the 29th November the other banks have made advances to the Canadian Pacific Railway Company, is that correct? —A. That is right.

Q. And they have had a copy of the order-in-council passed on the 29th November, but, between the 31st May and the 29th November, what notice had they in their possession that the government was guaranteeing the loan?—A. Well, they only had the statement that is contained here, and which was sent to them.

Q. Is it not the practice of banks that they must have on their files a guarantee?—A. No. For instance, one bank gets the guarantee in connection with the wheat pool loan. They cannot all have the guarantee; one bank holds it.

By Hon. Mr. Lapointe:

Q. Mr. Dodds, in a letter dated 17th August, 1933, signed by W. A. Bog, addressed apparently to Sir George Perley, I read the following:—

> I shall be obliged if you will, at your convenience, send me a draft of the proposed order-in-council which we would like to submit to the company before it is actually passed.

[Mr. Jackson Dodds]

As a matter of fact, was that draft of the proposed order-in-council submitted to the Bank of Montreal before the government passed upon it?—A. On the 31st August, 1933, Sir George Perley writes to Mr. Bog acknowledging receipt, and he says:—

> A draft of the proposed order-in-council regarding a loan to the Canadian Pacific Company has been prepared, and as you requested, I am enclosing a copy of the same. I note that you would like to submit this to the company and I hope that you will have consideration given to it as soon as possible and then write to the Prime Minister himself.

Mr. Lapointe: So a draft of the order-in-council was sent to the bank, but before all this took place the money had already been advanced.

By Mr. Fraser (Northumberland, O.):

Q. Mr. Dodds, I would like to be quite clear on this point, did the banks refuse to lend the Railway company this $60,000,000 without a Federal Government guarantee?—A. The banks were not asked to lend $60,000,000 without the Federal Government guarantee, so they never refused.

Q. Were they ever approached?—A. Not to my knowledge. It probably might have been discussed with us and we would give them the opinion that the other banks, not being bankers of the company, would not be likely to advance money for five years without a government guarantee.

Q. Mr. Beatty stated this morning that the Canadian Pacific Railway Company could not borrow this money without this guarantee?—A. Well, you do not always have to be turned down before you know that.

Q. To the best of your knowledge he was not turned down?—A. To the best of my knowledge, I do not recall that the thing ever arose. That is all that I can say.

Q. What I am trying to do is to reconcile Mr. Beatty's statement?—A. What did Mr. Beatty say, again.

Q. He said it was impossible for the railway to borrow this money without this guarantee?—A. Well, probably I told him so, or somebody else did, because that would be the fact.

Q. Did the banks then refuse to lend him the money?—A. No, but he might have asked me the question, possibly did, "Do you think the banks would lend this money without a government guarantee" and I would say "No," at once.

By Mr. Jacobs:

Q. It might have gone before the Board of Directors without your knowledge?—A. That is most unlikely, I am always there.

By Mr. Fraser (Northumberland, O.):

Q. You made the statement, Mr. Dodds, which simply meant that the banks refused to lend this money without the guarantee?—A. It may have been done in this way—the question may have been asked "Do you think that if such and such a thing happens that we would get the money," and the reply might have been "No, I don't think you would get it without it." That is a different thing to asking and being turned down. Probably I expressed the opinion.

Q. You have made the statement that the banks have plenty of money to lend; they might lend up to $20,000,000 on the security or collateral of the C.P.R. For what reason did you refuse to go further in conducting that kind of banking business?—A. Well, that was a reasonable banking loan. When it gets into five years it is not a bank loan in the ordinary sense of the word.

Q. I quite appreciate that, Mr. Dodds, but nevertheless with this kind of security and this kind of a loan, with the amount of frozen money you have, with the idle money you have, was it necessary for a Federal Government

guarantee even on a five year loan?—A. Well, rather than put money into what I would not consider a good bank loan I would keep the money in my vaults and not lend it at any rate of interest.

Q. Mr. Dodds, this is the point I would like to be quite clear on. You know, and I know, and every member of this committee knows, that the banks have millions of unemployed money to-day. Now, here was an opportunity to lend the Canadian Pacific Railway Company, probably the senior security in Canada, with the collateral that they had deposited against a loan up to $20,000,000, an opportunity for you to get that frozen money or idle money into circulation at the rate of 5 per cent and you refused to do it until you got a Federal Government guarantee, is that right?—A. Perfectly clear.

By Mr. Geary:

Q. Mr. Dodds, there is a question troubling some members of the House of Commons. It appears from the MacMillan report that on June 30, 1933, your total assets were $761,375,702 and your total liabilities $759,824,543, or an excess of assets of only $1,551,159. I am not speaking for myself, but at least one member of the House of Commons, without knowing the true excess of assets, makes the statement that your bank felt quite free to take up $22.444,000 of the Canadian Pacific Railway loan?—A. Yes. I suppose that gentleman is not used to this sort of figures and does not realize that amongst our assets—

Q. I understand it perfectly, but perhaps you might explain it?—A. —are included $74,000,000 made up of $36,000,000 capital stock and $38,000,000 rest account.

Q. Well, the figures speak for themselves, but were you in the Bank of Montreal in a difficult financial position?—A. I would say that the Bank of Montreal was and is a very comfortable position.

Q. The gentleman who was concerned about it says, in pointing out that your excess assets were only a million and a half, that you had taken up $22.444.000 of the Canadian Pacific Railway Company loan, and then he went on to say that he wondered, since reading the figures of the excess in the assets of the bank and of the amounts they had taken up of the Canadian Pacific loan, whether it was not because of the position in which the banks found themselves that this government undertook to make a guarantee of the Canadian Pacific loan?—A. No, there is nothing further from the truth. The Bank of Montreal is in a very comfortable postion and, as I have explained, has a capital and reserve alone of $74,000,000 over and above the figures that he imagines are excess assets.

Q. So there was no position that you were in that was dangerous in any degree?—A. None whatever.

By Hon. Mr. Ralston:

Q. Mr. Dodds, when you were answering Mr. Fraser I thought you might have expressed an opinion with regard to the possibility of other banks making a loan; that had reference to a five year loan?—A. Yes?

Q. You do not suggest it might not have been possible that the other banks would have made the loan on a similar ratio of security to a limited amount for a short term, such as the Bank of Montreal did?—A. They might have made it for a limited amount, but $60,000,000 for five years was another story on similar security.

Q. Yes, and a loan of this kind, a short term loan would be for a year?—A. I would think so.

Q. As a matter of fact, it was only needed for the 1933 financing, $17,000,000 above the $20,000,000 which the Bank of Montreal were carrying?—A. Yes. I imagine anybody who was running a billion dollar corporation does not want to let the thing drag. He wants to plan ahead, if he can.

[Mr. Jackson Dodds]

Q. Of course, it had been drifting in that way for a number of years?—A. No, I don't think so.

Q. It had been running on from year to year?—A. Oh, no. It was a definite loan first of all for one year with the option of renewal, and when the renewal came up then the question of the rate came up. They had the option of renewing, but the question of whether we should have security; at all events, as soon as security was suggested the Canadian Pacific Railway immediately expressed willingness to give it, and when the loan came due at the end of that period, and the question arose of renewing it again, there was given additional security.

Q. Yes, but the loan had been carried in short periods from 1931?—A. In accordance with our agreement with them.

Q. And your bank was really the intermediary or the go-between with the other banks?—A. Yes.

Q. With regard to the larger proposal, namely, that there should be a five year loan of the total amount of $60,000,000 covering the financing for 1933 and 1934, and that was the only proposition which your bank put to the other banks?—A. That is so.

Q. And from whom did you get the assurance or suggestion that the government might probably guarantee that loan so that you might take it up with the other banks?—A. Well, we did not have that assurance, but the understanding as far as I was concerned, so far as our own loan was concerned, if we could get a government guarantee—

Q. Yes, but I am asking you from whom that suggestion came, the suggestion of a government guarantee?—A. I am afraid I don't know just who suggested it; but as I mentioned once before, if I had been asked I would have said there was no chance of getting a $60,000,000 loan for five years without a government guarantee, and my impression is that on that point I may have expressed the view that there was no chance of getting it. In other words, we would not have taken a share of it.

Q. And your bank did the negotiating with the other banks?—A. Yes.

Q. They were requested to do so either by the government or by the Canadian Pacific Railway?—A. By Mr. Beatty.

Q. And was it from Mr. Beatty that the suggestion came that you should ask the other banks if they would take a certain proportion of the total financing for 1933 and 1934 on a five year basis?—A. Yes.

Q. And was he the one who suggested the possibility of a government guarantee?—A. Yes. Not that it had been suggested but would they take it on the basis of a government guarantee.

Q. Was he the one with whom that idea originated?—A. It might have originated with him, or it might have been suggested by somebody else and been taken up by Mr. Beatty, but when he authorized us to go ahead it was on his suggestion that we should ask them whether they would take that on the basis of a government guarantee.

Q. Did he tell you that he was in communication with the Prime Minister?—A. No, I do not recollect his telling me that, but I know he had been discussing affairs with him one way or another.

Q. Am I to take it that his suggestion came as the result of these discussions?—A. No, I would take it the suggestion came in the way when he wanted to get $60,000,000, and as I have said before we said that if we were going to take a share of any loan that we would want a government guarantee.

Q. I am saying to you that his suggestion to you to see the other banks came as the result of his discussion with the Prime Minister?—A. No, I did not say that.

[Mr. Jackson Dodds]

Q. I am asking you, did it come after this discussion?—A. Well, it must have come after. He has told us he was having discussions with the Prime Minister from March onward, but when the question came up to us—which I think was sometime in May—as to what the possibilities of this thing were, we expressed the view that if he wanted to get that amount of money for that length of time he would have to get a government guarantee.

Q. Had you never had any discussion till then?—A. Not to my knowledge.

Q. Were these discussions with the banks not going on in April and May? —A. No.

Q. Could you fix the time at all when the first approach was made to the other banks?—A. Well, as far as I know the other banks were not approached until just around the end of May.

Q. And they were approached by whom?—A. Sir Charles Gordon and Mr. Beatty. I think Sir Charles saw a number of them.

Q. Had you discussions with the General Managers, I mean before the end of May?—A. No.

Q. The General Managers of the other banks?—A. No.

Q. You had no discussion with the Prime Minister yourself?—A. No.

By Mr. Coote:

Q. Mr. Dodds, do you know whether this loan was considered by the Canadian Bankers' Association?—A. No.

Q. Can you tell us what are the longest periods for which loans have been made to the Canadian Pacific Railway before?—A. Well, it is so many years since we loaned the Canadian Pacific Railway that I cannot tell you. I would say that in ordinary banking practice it would not be any longer than this.

Q. You mean ordinarily not more than two years?—A. Ordinarily, yes.

Q. Just to clear up a question I think that was put by Mr. Howard, could you tell us what rate of interest was charged to the railway company on your advances through 1931 and 1932?—A. Yes. On the original $5,000,000 in Canada 5 per cent; on the $15,000,000 loan, half in New York and half in Canada, 4 per cent. When that came due, the whole of the loan in June, 1932, was put on a 5 per cent basis.

Q. And the whole of this loan is at 5 per cent for 5 years, is that correct? —A. Yes, that is correct.

Q. Could you tell us, or do you remember, when the rate of interest paid to savings bank depositors was reduced by the banks?—A. Well, I am afraid I don't remember the date. May 1, 1933.

Q. Was it not about the time that this loan was negotiated?—A. One is the 1st of May, 1933, and the other is the 30th May, but they have no bearing on one another.

Q. It just seems to me that the rate of interest was reduced to savings bank depositors about the same time, and that perhaps you would express an opinion as to whether the banks were not charging rather too high a rate on a loan guaranteed by the Dominion for the full period of five years?—A. Well, I am assuming at the time that the Canadian government would use every endeavour to get it as low as possible and the banks would endeavour to be fair.

Q. Do you think that the banks need to get a rate of five per cent on a loan of this nature when they are paying 2½ per cent for the money, is that not rather a big spread on a loan of this kind?—A. No, I don't think so.

Q. Can it be justified by the expense of running a bank?—A. All over the country, yes.

[Mr. Jackson Dodds]

By Mr. Willis:

Q. If my memory serves me correctly, the evidence of Mr. Beatty would indicate that Sir Charles Gordon canvassed the situation on behalf of the Canadian Pacific Railway Company with the banks with a view to finding out whether a loan could be made or not. Would you say anything in regard to that statement?—A. I have nothing to say about that.

Q. Would you mind indicating your opinion of the ranking of the security known as the 4 per cent Consolidated debenture stock of the C.P.R.?—A. Well, all I can say about that is that it is sold in large quantity in the money markets of the world, and the market price expresses the view of the people at the time as to what they think of it and what they are prepared to pay for it.

Q. Would you say it was an excellent security or not?—A. I would say it is regarded as a high class security.

Q. Did the guarantee by the government permit you to rediscount?—A. No, it did not.

Q. Is not that usually one of the purposes of a government guarantee?—A. It is laid down in the Finance Act what we can rediscount:—

(*a*) Treasury Bills, bonds, debentures or stocks of the Dominion of Canada, Great Britain, any Province of Canada, and of any British possession;

(*b*) Public securities of the government of the United States;

(*c*) Canadian Municipal securities;

(*d*) Promissory notes and bills of exchange secured by documentary title to wheat, oats, rye, barley, corn, buckwheat, flax or other commodities;

(*e*) Promissory notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes and which have been used or are to be used for such purposes;

That is all.

Q. There were advances on June 22nd, I understand, of $35,000,000, that was the first actual advance made by the syndicate banks?—A. Yes.

Q. And then again on November 1st, $25,000,000?—A. It was December 1st, I think.

Q. An additional $25,000,000?—A. Yes.

Q. The letter of 25th September, 1933, from W. A. Bog, General Manager of your bank, to Mr. Bennett had an enclosure in which is indicated the obligations of the Canadian Pacific Railway Company to be retired out of the loan of $60,000,000?—A. Yes.

Q. The statement indicates maturities of approximately $35,000,000 as between June 22nd and the date of the subsequent loan, is that right?—A. Well, I have not added it up, but I will if you like.

Q. And the statement also indicates maturities from June 22, 1933, to November 30, 1934?—A. Yes.

Q. I am making that statement merely to indicate that from the point of view of banking the maturities were already definitely stated before the loan of $60,000,000 was made, amounting on my addition to $56,244,000, is that correst?—A. Yes, $57,244,000.

Q. And the additional amount is exchange?—A. Yes, that is right.

By Mr. Fraser (Northumberland, O.):

Q. Would the bank loan to the Canadian Pacific Railway Company be in a senior position as to the credit of the Company?

Mr. JACOBS: That is a question for a lawyer.

The CHAIRMAN: I do not think you should ask the witness that question.

The WITNESS: I think perhaps I could answer that—obviously the senior position is held by the senior security.

[Mr. Jackson Dodds]

Q. The bank loan would be in that senior position, would it not?—A. Not unless it held a senior security.

Q. It would take the senior security?—A. I don't know that it did; I don't think that it did. You have a list somewhere here of the securities and that would give you the information you want. Mr. Beatty detailed that security; he told you what was senior security and so on. You will find it all in his statement.

Q. Take the usual position of a bank loan, a bank does not make the loan without it is in a senior position so far as the assets of the company are concerned?—A. I think I must disagree with that statement because the senior security in the case of many of our companies consists of bonds in the hands of the public, so that is a senior security.

Mr. IRVINE: Mr. Chairman, it is 6 o'clock, when do we meet again.

The CHAIRMAN: Are you through with Mr. Dodds? If you are why you can dismiss him. There only remains to be examined Mr. Bennett and he will be available to-night at 8 o'clock. If not to-night, then he will not be available until Thursday morning.

Mr. POWER: Will there be any objection to the committee meeting at 8 o'clock.

The CHAIRMAN: Mr. Bennett, I think, will be available at 8 o'clock.

Mr. JACOBS: Let us put it over until Thursday.

Mr. POWER: As far as I am concerned, I am quite ready to sit at 8 o'clock.

The CHAIRMAN: I think it is advisable to have this thing cleared up as soon as possible.

Mr. IRVINE: Mr. Chairman, will we have an opportunity of questioning Mr. Dodds in respect to the Bank Act.

The CHAIRMAN: I hope so.

The committee adjourned at 6 p.m. to resume at 8 p.m.

EVENING SESSION

The committee resumed at 8 P.M.

The CHAIRMAN: Come to order, gentlemen, please. We have a quorum now and Mr. Bennett is available as the next witness.

The RT. HON. R. B. BENNETT (Prime Minister), called.

The PRIME MINISTER: It is not usual for a Prime Minister to appear before a Parliamentary Committee to make a statement about public business; but I prefer to do that rather than have slanderous statements circulated throughout Canada where there will be no opportunity to deny them. I am in the hands of the committee.

The CHAIRMAN: I would suggest, Mr. Prime Minister, that you make a statement covering this transaction from its inception down to its culmination, and I would ask that there be no interruptions, then questions may be asked by members of the committee.

The PRIME MINISTER: First, Mr. Chairman and gentlemen, I am not a shareholder of the Canadian Pacific Railway Company. I own no common shares, no preferred shares, no debentures, no bonds, no securities of any kind, nature, form or description whatsoever, and have not owned any for years. I did own a few

[The Prime Minister]

common shares, not many, some years ago; but I have not been, since I became leader of the opposition, the owner of shares. I am not the owner of any shares in any subsidiary of the Canadian Pacific Railway Company, not any of any kind, nature, form or description.

During the depression the position of the Canadian Pacific Railway Company was a matter of importance to the government. We were urged on two occasions to assist in finding employment for men in the shops. We did. I was familiar with the fact that the Canadian Pacific Railway Company was indebted to banks in and out of Canada. When the banks were closed in the United States I recall having met the President of the railway—Mr. Beatty—and some mention was made of the difficulties of the position of the company by reason of its borrowings in the United States. I refrained from comment, for reasons that were obvious.

When it was known that I was leaving for England in the early part of June, 1933, Mr. Beatty accompanied by the President of the Bank of Montreal—Sir Charles Gordon—met me in the City of Ottawa, and thereupon Mr. Beatty presented me a memorandum which was marked "confidential," the substance of which was communicated to me verbally and which, in fact, if my memory serves me, I read to my colleagues. On the last day of May I find from looking at the correspondence—because I would not undertake to charge my memory with exact dates except in a few instances—I wrote a letter to the president of the Bank of Montreal which, I take it, has probably been read to this committee. That letter indicated that as the Canadian Pacific Railway Company had obligations that matured between the 1st of June next and the end of 1934 amounting to approximately $60,000,000, that if the Chartered banks loaned that money to the railway company secured by 4 per cent consolidated debenture stock having a nominal or par value of $100,000,000, the government would guarantee the banks against loss. I further indicated, that in my absence Sir George Perley would deal with the matter.

My understanding at the time was, that from a list of the obligations that were furnished to the government substantial obligations matured on the 1st of June, or thereabouts, and that the balance of the $60,000,000 of obligations matured sometime towards the end of 1934. As a matter of fact, a list of the obligations was furnished to the government, and I verified the list later after I came back from England.

On my return from England the order in council had not been promulgated and I personally undertook the preparation of the order in council. The order in council in the form in which it now is was prepared by myself. I was very busily engaged after my return, and as the obligations did not require to be met until after the 1st of December—I am only carrying this again in my memory—I again made it my business to verify the list. Before the order in council was completed I verified the figures by telephone and by a copy of the statement of the obligations, which appears in the same form as that which has been filed, I might say, Mr. Chairman, over the signature of Mr. Lloyd, Vice-President and Treasurer.

I do not suppose the committee is interested in the matter of policy that is involved but seeks information with respect to the facts. After the order in council was prepared copies were sent to the Bank of Montreal for distribution to the other banks that were interested in the transaction. And there it ended; that is all.

The CHAIRMAN: Are there any gentlemen who have any questions to ask the Prime Minister?

By Hon. Mr. Ralston:

Q. Just directly on this transaction. In the first place, Mr. Prime Minister, with regard to the conversations between Mr. Beatty and yourself, prior to the letter of May 31, Mr. Beatty has told us this afternoon—I want to be quite

[The Prime Minister]

accurate—that there were probably several conversations. Those, I think, were the words he used. Have you a recollection of those?—A. I think, Mr. Ralston, that it is fair to say the financial position of the Canadian Pacific Railway Company has been the subject of discussion between Mr. Beatty and myself for perhaps a year prior to May, 1933.

Q. I was speaking about the time of the bank holiday in the United States, from then up until May when the letter was written, were there several conversations?—A. My memory would be, Yes.

Q. Is it your recollection that in any of these conversations it was suggested that possibly the government might have to, or might be asked to guarantee the maturities of the Canadian Pacific Railway for 1933 and 1934?—A. Mr. Ralston, I have had many things to do in my day and I did desire to avoid dealing with this transaction as it ultimately was dealt with. I recall quite distinctly that I declined to make any statement, that is, in my own mind, as to what the government might or might not do. Nor do I remember that Mr. Beatty suggested or requested the government to do any particular act, or deal with the matter in any particular way until he produced a formal memorandum in the closing days of May.

Q. Did you know, in a general way, that the other banks were being approached, that the Bank of Montreal had asked if they would take on a portion of the loan, if the government guaranteed it?—A. I have no recollection in my mind that I was told the other banks were being asked until the latter days of May. It is just possible that an intimation of that kind was made to me but it made no impression on my mind. I did not deal with it personally nor had I any negotiations with the banks at all myself, nor did any body act, so far as I know for the government.

Q. What I am getting at is whether or not you remember if there were any conversations between you and Mr. Beatty suggesting that the government be called on to guarantee the loan because it would seem as if that must be one of the subjects which would be discussed, or which would be uppermost in at least Mr. Beatty's mind, and possibly in your own.—A. No. Mr. Ralston, I think, if you will put yourself in my place, you will understand. This transaction was dealing with the Canadian Pacific Railway's financial position, and that was something that I desired to avoid discussing if I could for reasons that I suppose every Prime Minister would give; but knowing what the position was with respect to banks in the United States and the attitude of the banks in the United States with respect to Canadian loans, both national and otherwise, I kept thinking in my own mind that this matter would come before us in some way; but I do not recall ever, until it was brought to us formally, that it was suggested that the government should deal with it by guaranteeing the banks. Mark you, I do not say that it might not have been suggested. I have not seen Mr. Beatty since he was here. I do not know what his recollection is. I am only speaking of my own.

Q. The thing that struck some of the members of the committee—and I think it would strike you too, Mr. Prime Minister—was this: That it was hardly conceivable that the President of a bank would be interviewing other banks to see whether or not they would take a proportion of a loan to be guaranteed by an institution or an organization, and particularly by the Prime Minister of Canada and his colleagues, without having had some consultation with the man who was going to endorse the note as to whether he was willing to do it?—A. To me it would be quite conceivable to ascertain whether or not in a given contingency the banks were willing to do a certain thing; but, as I say, it is just possible that something was said about it. I can only say to you, however, that I have no memory of it now. If there is a circumstance that would bring back memory I would be very glad indeed if you would mention it.

[The Prime Minister]

Q. Do you know that any other proposition had been put to the bank other than the proposition that Canadian Pacific Railway securities of 4 per cent perpetual consolidated debenture stock should be funded into a five year loan and the loan guaranteed to the banks?—A. I have no knowledge of what was communicated to the banks as to how the matter would be dealt with. But I did know, as I fancy every business man knows, that the practice of the Canadian Pacific Railway Company had been to carry on its construction work out of accumulations of cash and sell its 4 per cent debenture stock for the purpose of recouping the cash reserves after the expenditures had been made. That was their practice in the days of Lord Shaughnessy and that practice was maintained until their cash reserves were exhausted. I knew that.

Q. I do not want to press unduly, but that was not quite responsive to my inquiry. My inquiry was whether or not you knew, from Mr. Beatty or Sir Charles Gordon, that any suggestion had been made to the banks other than the proposition for a five year funding guarantee by the government?—A. With respect to that, Mr. Ralston, the proposal made to the government was for a period of five years and no other form of dealing with the matter other than that indicated was, so far as I recall, mentioned.

Q. Either by you, or by Mr. Beatty, or Sir Charles Gordon.—A. Well, I cannot recall any other. It is just possible there was, but I have no recollection.

Q. That is to say, you did not canvas the situation to ascertain whether the banks would take anything less, or any other proposition, than the proposition which had been put to you?—A. As a matter of fact, speaking first as to time, I regarded myself, that five years would be a reasonable time for reasons that most people who know the circumstances of this country and of our railroads would regard as cogent and convincing reasons. As to the second point, I confess I did not canvass other methods because I believed that was the only available method when it was presented to us; I believed that would enable us to meet the position.

Q. Did you know the Bank of Montreal were quite willing to renew for another year?—A. I did not. In fact, if you asked me what my impression was, I would give it to you very clearly that Mr. Beatty being himself a director of the Bank of Montreal and Sir Charles Gordon, the President of the Bank of Montreal being a director of the Canadian Pacific Railway Company, that it was a somewhat difficult matter to suggest that there should be a renewal. That perhaps is an impression, but certainly that circumstance was mentioned.

Q. Did you also know or ascertain whether there was a possibility of handling the matter by dividing up the balance, leaving the Bank of Montreal with the loan which they had and by dividing up the balance with the other banks on the same ratio of security, that is to say, the perpetual debenture stock?—A. I did not discuss that phase of it.

Q. From whence did you get the idea, Mr. Prime Minister, that there would be default, unless this particular method of financing was adopted.—A. I do not think you heard me say that there would be default unless this method of financing would be adopted. I have not mentioned the word "defaulted" yet.

Q. I am referring to your statement in the house.—A. Then why not direct my attention to it.

Q. I am awfully sorry. At Hansard, page 101:

> "The company could do one of two things: Should they default or should they not?"

And then in the Order in Council itself, which I understood you to say you prepared, paragraph 9:

> "That the said railway company is a public corporation carrying on its operations not only in Canada but in other parts of the world; and, in the opinion of the ministers, under present disturbed economic con-

> ditions, it is desirable to prevent default by the said railway company in discharging its said capital obligations and indebtedness as they mature, and in the public interest, to grant the request of the said railway company as a measure for the protection and maintenance of the credit and financial position of Canada."

I should have directed your attention to that before. What I was asking was, from whence did you get the idea that there would be default unless this method of financing was adopted?—A. That is not fair. Unless that company were in funds to meet its obligations, it would default; that was the question. That was a matter of policy which must, of course, be determined by the government of the day, and it had to accept the responsibility of saying Yes or No to the proposals that were made to place the company in funds or leave it without resources with which to meet its obligations; and I knew that if it could not renew its notes in the United States and could not pay them it would immediately default. That is common ground.

Q. My point was that you might put the company in funds in other ways, possibly, than by the proposition which the company itself put forward?—A. Well, the company, of course, could have been put in funds by lending them money. That, of course, is the system adopted in the United States. The railways of the United States were loaned $340,000,000 as outstanding about the middle of March, and they were authorized to borrow $411,000,000, through the Reconstruction Finance Corporation, but we were not in a position to lend money, and in my own mind, as a matter of individual judgment, plus the judgment of my colleagues, the method adopted was the method by which the company was placed in funds to meet its obligations without the country incurring what I conceive, at least, to be any liability.

Q. I quite understand the difficulties about lending money, but I have indicated by my previous question that that was not what I had in mind. What I had in mind was the possibility of procuring short term loans from the banks to tide over the situation for another year in the hope that there might be an upturn. That, I understand, was not canvassed?—A. Mr. Ralston, I can only say to you that I would not regard that as either feasible or possible.

Q. Well, I can only say to you, Mr. Prime Minister—I cannot give evidence—I may say to you that Mr. Dodds told us this afternoon that as far as he was concerned the loan was perfectly good?—A. That is not the question. Did Mr. Dodds say that $60,000,000 was perfectly good?

Q. He talked about his own loan?—A. Do not confuse the two things, please. You are talking about the whole transaction.

Q. I am not mixing things at all. I suggested the other possibility which I thought might have been canvassed. The other suggestion was to make arrangements with the other banks, at least for the maturity for the balance of 1933. It only amounts to $17,000,000?—A. Oh, no. That assumes, of course that the Bank of Montreal would renew the then existing loans, the other banks would carry the balance and that no provision would be made for the future liabilities. I consider it as a matter of policy not only sound but almost essential to the interests of this country that for a reasonable period of time the matter should be free from further difficulties either with respect to the company or the government.

Q. In other words, you considered you should make provision, even though it put a $60,000,000 guarantee on the tax payers of this country—you still considered it was advisable to finance the C.P.R. for five years in connection with maturities for 1933 and 1934—notwithstanding that other temporary measures could have been made without that guarantee?—A. Of course, that is wholly inaccurate. Nobody was financing the Canadian Pacific for five years. The Canadian Pacific was financed for one year, until December 1934; and I

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believed it to be in the national interest, as I now do, that provision should be made for that period of time in order that if recovery took place, as I believe it will, there should be an opportunity thereby afforded to enable the company to market its securities and to retire its obligations. The guarantee placed upon the taxpayers was secured by $100,000,000 of 4 per cent debenture stock of the Canadian Pacific railway company, and there ranks junior to that both its preferred and common stock, the common stock representing $123 in cash for every $100 outstanding, and the preference stock representing, if I remember, something like $135,000,000 in addition, making a total of nearly half a billion dollars junior in point of fact to the debenture stock.

Q. I think you are only proving it was a pretty good bank loan?—A. I am not concerned whether it was a good bank loan or not; I am concerned with what I conceived to be the proper thing to do for this country at that time. What I then did, I would do to-morrow.

Q. We have our different points of view?—A. Certainly. That is expected.

Q. I am suggesting that the alternative was short term financing, but, as you say, you would prefer to have this country guarantee $60,000,000 for the purpose of making a long term loan?—A. I go further. I do not think it is possible to make short term financing on that statement of facts as given to me.

Q. The committee has heard Mr. Dodd's evidence. Now, Mr. Prime Minister, these discussions were taking place when Parliament was in session?—A. Yes.

Q. Parliament, I think, rose on the 27th of May?—A. The 27th of May.

Q. And you did not think it was desirable to make any disclosure of the situation to Parliament, or to ask Parliament to wait another week?—A. I certainly did not. I believed that I was in office to discharge the responsibilities of office, and, having the power, it was my duty to exercise it in the public interest; and when I fail to have that understanding of my position I fail to hold it.

Q. You are exercising extraordinary powers under the relief act?—A. I was exercising the powers which Parliament had given me and my government, strictly in accordance with the powers then conferred by Parliament.

Q. I only remind you of this: in connection with the $20,000,000 matter of financing—$20,000,000 for relief—in 1930, you saw fit to call Parliament together. In connection with this $60,000,000 guarantee, you did not feel the necessity for holding Parliament any longer?—A. Parliament having conferred upon the government of the day, the Executive, the authority to deal with the matter, the government dealt with the matter in accordance with thé power conferred. Parliament not having conferred any power to use any sum for relief it was necessary to call Parliament together to secure the authority. Parliament was called together and gave the authority. Of course, this is rather beside the inquiry itself; it is unusual to discuss purely political matters before committees of this house. I cannot restrain the honourable member.

Q. I thought we are considering the circumstances under which this loan was made?—A. They are direct and speak for themselves without my referring to them.

Q. We want the facts?—A. The facts are on the record.

Q. No, there are some facts that are only matters of both opinion and of verbal conversation?—A. There cannot be any opinion as to an Act of Parliament.

Q. None whatever. I am not speaking of an Act of Parliament?—A. That is what you are referring to in your last question.

Q. I am speaking of an act of government. When was the verbal assurance given to Mr. Beatty that the government would guarantee the loan?—A. Well, it was on the last day, or the last day but one—it was in the closing days of May.

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Q. I take it that you yourself had no doubt about the advisability—let me put it that way—of it; and, therefore, it did not take very much persuasion, or argument, as far as you are concerned, to be convinced that that was the thing to do. So, what I want to ask you, if that is correct, is whether or not it might not have been in the early part of May that you indicated to Mr. Beatty that that may have been done?—A. Nothing is more reprehensible, on the part of counsel, than to make statements and then say they are part of the question. What you have just said, you take for granted. Nothing I have ever done has caused me more perturbation than the anxiety of doing this act, and the very reason that I am sitting here now is that I knew perfectly well what would be said by you and others like you.

Q. Mr. Prime Minister, I am sorry that I assumed what I thought you had said before; I thought that you had said that you yourself were convinced that that was the proper thing to do, and I assume that when I put my question now. May I just have that from you, do you consider it to be a proper thing to do? —A. After hearing what was said, after reading to my colleagues the memorandum submitted by Mr. Beatty, and after considering it, I concluded, in the interests of the Dominion of Canada, that it was desirable to take the action which was taken.

Q. And I ask you again, then, in view of that, might it have been in the early part of May that you at least gave Mr. Beatty to understand that the government would guarantee the loan?—A. So far as my memory goes, it was not. The question of guaranteeing the loan was not mentioned in the early part of May. I told you that. I have no recollection of any discussion of that character, until the formal presentation of the case, the method by which it was to be accomplished then being proposed by Mr. Beatty.

Q. I did not understand that, I understood you to say that you did not have any recollection of that; it might have been discussed—?—A. No, not that now; do not try that. What I said was that I had no clear recollection of what might have taken place, but that in my own mind I was clear that there was no such conversation, except in the closing days of May.

Q. I see. Do I take it that the letter of May 31, set out fully the arrangement which was to be in existence, at least the obligation which the government was to carry out in connection with this loan?—A. That letter was given to Sir Charles Gordon; I think on the day before I left here, I cannot be quite sure whether it was the day before, or the day before that; and looking at it now I believe it covered the situation.

Q. There does not seem to be any suggestion of any sort in that letter that the undertaking was to be conditional on other efforts failing?—A. Well, you raise a question on which I fancy the railroad executive could speak with more authority than I. It was represented to us that they had been endeavouring to sell their four per cent consolidated debenture stock. I suppose it is within the memory of most people who follow business transactions that it had been sold in London and New York; very little, as I have said, in Canada. And my understanding was that the railway company was anxious to sell its four per cent consolidated debenture stock, and relieve itself of this liability; and as you know, as I said in the House, the President of the railway company came to London while I was there.

Q. I am asking you, was there any discussion, either between you and Mr. Beatty, or between you and Sir Charles Gordon, that this letter was conditional on Mr. Beatty making efforts in London to get the money?—A. Whether you put it in just that way, or not, I could only say this; whether putting it that way would be correct, or not. I do not quite care to say, because I do not know what you mean by the question behind this, that it was understood that the railway company would continue to endeavour to sell the securities; and the reason that five years was agreed upon was that if economic recovery takes

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place, there would be no doubt, then, about the ability of the railway company to market its securities.

Q. Just going back to one question; that was, whether or not the undertaking was conditional on all other efforts failing to finance?—A. Well, Mr. Ralston, that is a question, put in that way I cannot answer. We had determined, as a matter of fact, at the time that letter was written, that we would give the guarantee in question, and it was also understood that the company would continue, as it had done in the past, its efforts to market its securities. I should not care to put it in the way of being a condition, because the document is clear and it is fairly unambiguous in that regard.

Q. As a matter of fact, was any hope held out that it would be at all likely that there would be any success in attempting to dispose of the consolidated debenture stock that summer?—A. Now, as I say to you—I do not know what the president of the railroad has said—but my memory is that he told me that he had been to New York, that he had discussed the matter there, and that in the then chaotic condition of financial matters he did not see any likelihood of selling his securities there; and with respect to the English market, it was brightening, and it was not unreasonamle to expect there might be opportunities to sell there. But the fact is that if the opportunity offered to sell the securities to-morrow, my understanding is that the railroad company would avail itself of it at once, and thereby discharge its obligation.

Q. I am talking, Mr. Prime Minister, about this situation: as I understood it you were holding up the passing of the actual Order in Council because there had been some condition that this guarantee was not to be effective unless all efforts had failed, and therefore you were not passing the official order-in-council until you ascertained the result of these efforts. I am not talking about the possibility of selling the debenture stock after the guarantee was on; that of course is always possible?—A. So far as the order-in-council is concerned, my understanding is at least that it became apparent by the middle of July that sales could not be effected, and that my colleagues started to draft an order-in-council; and as a matter of fact there is on my files a draft of an order-in-council which they were preparing; but my memory is that I said on the telephone, from London, that the matter could stand, as there was no pressing necessity for hurrying it; and I prepared the order-in-council, the original draft of which is here. It took a good deal of time and represented, shall I say, a considerable amount of effort with the other work which I had to do, and with my absence from the city; but I did not look upon it as being of very pressing necessity, as long as it was available before the payments had to be met; although I think it is fair to say that continuously, after, it became apparent that sales could not be made in London, efforts were made to get the order-in-council by the banks.

Q. In connection with the time that the order-in-council was passed, the impression, I think, was left on the House that the reason the Order in Council was not passed before was that the money was not required?—A. That is so, that is my understanding; yes.

Q. And now, I want to point out to you—perhaps you did not know—did you know when your statement to that effect was made in the House that $35,000,000 of that had actually been paid, up to the end of July?—A. Oh yes. I am talking about the balance of it, and I have been using the word balance in what I have just said to you. I knew that the banks would make advances in the early part of June, I think during the first few days of June, to meet the obligations that were maturing on that date; but, on the lines that I said, there was no necessity for any substantial advances, until later on in the year, and the Order in Council was passed before that date arrived. That is all I was endeavouring to say.

Q. Mr. Prime Minister, I must correct you, because I know you haven't got all the facts?—A. But I did know about the advance of the $35,000,000.

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Q. But the total amount due in the whole year of 1933 is $33,750,000, and $25,975,000 was due and paid before the end of July?—A. Now, just wait one moment as to that, Mr. Ralston, because you will find in the correspondence a letter that I sent to Mr. Dodds before I completed the order-in-council asking for assurance that the obligations had been discharged by advances from the bank, and that he said he was holding for a certain contingency a certain sum of money, and he later advised that that sum of money had been used to meet that liability. (See Appendices "F" and "G").

Q. Now, here is a point where I think your memory is failing; do you remember that that amount was only $5,000,000?—A. I have it in front of me now, $7,500,000 payable on the 22nd June, 1933; $7,000,000 which was due in Canada on the 22nd June, 1933; $500,000 due in the United States on the 5th July, 1933; $10,000,000 due in the United States on the 15th July, 1933; and $1,000,000 due in the United States on the 29th August. It will be observed that the sum total of the first four items is twenty-five and a half millions of dollars. The other items, that is, in addition to these, were for the railway company to pay its rolling stock purchase instalments, $975,000 on May 31st, 1933; $2,000,000 in the United States on the 30th June, 1933. Then the next payment on rolling stock obligations was not until November; so that you have $28,475,000, I think, due by the end of July. My understanding was that the banks advanced a larger sum as well, before the end of July, and, when I spoke in the House, I referred to the balance that was not advanced by the banks until later, because the advances were made in two instalments, the first instalment I believe being made early in June, and the second instalment, as indicated by the list of payments by the banks on the 1st of December, 1933.

Q. Mr. Prime Minister, what I am referring to is this; that in the House you were asked how it happened that it was as late as November 29 before the Order in Council was passed. May I stop here to say that the Order in Council covers the amount which you have mentioned—and I repeat again—up to the end of July. That is, the two amounts you have spoken of, the amount of $7,500,000 and the $10,000,000 on July 15th; the total of all these up till the end of July amounted to $28,475,000. You were asked in the House, "how does it happen that it was as late as November 29th before the Order in Council was passed"; and the answer is: "MR. BENNETT: I can easily explain that, the obligations maturing on December 1, it did not become necessary to close out the transaction until then." Now, my point there, Mr. Prime Minister, is that those obligations were not maturing on December 1st, the $28,475,000, they matured before the end of July?—A. Surely, Mr. Ralston, by looking at this sheet furnished by the banks, you will observe they advanced $35,000,000 by the 22nd June, 1933. They did not advance the balance of $25,000,000 until the 1st day of December, 1933; and inasmuch as the first sums had been advanced on the strength of the letter of the 31st of May, 1933, the completion of the transaction by the Order in Council, prior to December 1, 1933, when the $25,000,000 was payable, was all that was desired. That is what I mentioned; that is what I now say. There was no necessity for hurrying the Order in Council prior to the first day of December, 1933.

Well, Mr. Prime Minister, what did you mean in the House when you referred to the obligations maturing December 1st?—A. Just what is said here; that is the obligation that the banks had made with the Canadian Pacific to give them $25,000,000 more.

Q. Are you looking at the same sheet as I am, the sheet signed by Mr. Lloyd?—A. No, I am looking at the statement made by the banks of payments made in discharge of maturing obligations since May 31, 1933.

Q. I am talking about obligations?—A. I am talking about the obligations of the bank to the railway company; you are talking about the obligations of the railway company. The obligation of $25,000,000 of the banks to the rail-

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way company were payable by the several banks by the first day of December, and the banks did not complete the transaction until the money was paid. I outlined that there were obligations the railway company had to meet; two transactions, one of $35,000,000, payable on the 22nd June, and the other of $25,000,000, payable on the first day of December; and the result was the letter on the 31st of May with respect to making the advance of $35,000,000, as Sir Charles Gordon indicated. The Order in Council was given and the other amount, namely the $25,000,000 was advanced the banks indicating that they desired the order in council before the closing date, to ensure the payment to which I have referred. That is what I had in mind, Mr. Ralston; there is nothing to disguise about it.

Q. I wondered which obligations you had in mind at the time, because it does not seem to me the obligations of the banks could be the obligations you speak of?—A. No; but, Mr. Ralston, the banks made a contract with the Canadian Pacific to lend $60,000,000; $35,000,000 on the 22nd of June, and $25,000,000 on the first of December. The banks indicated, before making the last payment of $25,000,000, that they desired to have the authority of the order in council.

Q. The time of these obligations maturing, December 1st, refers to the payment which was to be made by the bank to cover the obligations which had been advanced all the way down from the 31st May to December 1st?—A. Undoubtedly the words there used were intended to cover the obligations which the railway company had to meet by the first day of December. Without having the details, to which you have now directed attention, showing that dates—as a matter of fact I observe that the date was the 30th day of November on which the $975,000 obligation matured; and I had so treated the matter in dealing with it to meet obligations by the first of December. I have been looking on this sheet; these obligations did not mature till later.

Q. All I am pointing out is that the obligations maturing on December 1st would seem to refer to the obligations by the railway company to the bank?—A. If I might put it to you this way, Mr. Ralston; it referred to the transactions as a whole. The banks were to put the company in funds for the balance of $60,000,000 on the first of December; my understanding being that on the first of December the railway required the money to meet obligations maturing on that date. From looking at the sheet signed by Mr. Lloyd, it is quite clear that these obligations did not mature until later. That is the point to that.

Q. May I point this out to you; perhaps this will straighten it out in your mind; there were, as a matter of fact as I understand it, obligations maturing December first, according to the statement furnished by Mr. Lloyd $60,000,000 which was due December 22, 1933; and it was, as I understood, required on December first?—A. You are quire right; but I do not know whether Mr. Dodds told you, it was with respect to that that I telephoned him for information as to what had happened to the money advanced, for I was desirous of knowing that the money advanced by the banks had discharged the obligations that had matured; and the bank—I suppose Mr. Dodds told you, if you asked him—undertook to send me word that the various obligations had been retired as expected. Five million dollars was extended from September to December. You say it was $5,000,000; I do not carry the figures in my head.

Q. I gave from the Bank of Montreal, $5,000,000 through the Bank of Montreal, in Canadian funds?—A. I can look it up.

Q. You will find it in the letter 150-E-1 (See Appendix "G") in which Mr. Dodds informs you that they retired on December first the loan for $5,000,000?—A. Yes, and on the 30th that is the day before, one for $975,000.

Q. Now, I am looking also at that letter of Mr. Dodds', since we have it before us, and there he makes use of the expression of which you make use

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in the House; namely " Obligations of the Canadian Pacific Railway Company"; and that is what makes it seem to me that the obligations referred to, at the top of page 101 of Hansard, were the obligations of the Canadian Pacific Railway Company maturing December first—namely $5,000,000?—A. Mr. Ralston, I desire to make it perfectly clear to you that I had not the slightest doubt in the world that you are correct in that. But when I spoke of obligations maturing as of December, I undoubtedly meant the date that the company secured the balance of the loan of $25,000,000. As a matter of fact, looking at the figures, I see that the loans did not mature on the first day of December. Some of them did not mature for several months after, and if I had the papers before me and looked that up, I would have been able to give those particulars. It is possible that my memory is fallible about matters of this sort.

Q. Then, I find another passage in Hansard further down. At that time it was apparent that the government would guarantee the advances. Of course, the letter is dated May 31, but the money was not required until December 1, although part of the maturity, I think, had been paid before that date. The Order in Council was not passed until November 29, as I had indicated. In view of the fact that the maturities had been paid by the banks in their regular order, and as I understand $28,475,000 had been paid before the end of July and $10,000,000 of that was paid in the United States, may I ask you, Mr. Prime Minister, whether or not that is really the reason for the delay in the passing of the order in council?—A. Mr. Ralston, I assure you, and if you desire to swear me you may, that there is no sinister motive, nor any other cause, other than those I have mentioned, behind the delay with respect to the order in council. I must assume the responsibility for it, for I was very pushed with many things to do after I came back; and I took upon myself the responsibility of preparing it. I went into a back room, and when I was called away to other duties, I abandoned this, and took it up later liesurely until it was finished, because I believed, and I merely give you my belief, that if it were completed by the first day of December, which was the day in which the balance of the $60,000,000 was advanced by the banks, that was all that was necessary.

Now, there is nothing secret, nothing to hide, everything is open and above-board with respect to it. I find by looking at it, that one of my colleagues commenced the preparation of the order in council in August. As a matter of fact, the 31st day of August a draft had been prepared; it is on a single page, a single sheet.

Q. I was not asking for any sinister motive; I was only asking for the reason given in the House, namely, that the obligations were maturing on December 1st. These reasons do not seem to be borne out by the facts, as we have them presented in the correspondence tabled in the House, and I was asking whether there was any other reason why the Order in Council was so long delayed. I take it your answer is there was no other reason.—A. No, and what is more, Mr. Ralston, when I was speaking in the House, I had not before me all the documents and I was relying, to some extent, upon my memory. I had recalled that the first day of December was the day on which the balance of the $60,000,000 was advanced by the banks, and I assumed, I can see, had I looked at the documents I would have seen that the maturities had to be met at a later date—that the obligations of the railway had to be met at that date, when, as a matter of fact, some did not mature until some time after.

Q. Some had matured long before?—A. Yes.

Q. Some had been advanced long before?—A. Yes; they were covered by letter of the 31st May.

Q. I wanted to ask, Mr. Prime Minister, was there any particular reason as a matter of policy or practice why your letter of undertaking should not be mentioned in the order in council, or in your statement to the House?—

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A. Well, I will tell you. I believe you are an excellent lawyer. You know perfectly well an order in council of that character would not do other than recite just what it did. There is no question of concealment. The fact that it is there, and the papers were moved for, Mr. Ralston, is in itself proof that there is nothing to keep back about that.

Q. I am not talking about keeping back anything. I was asking why it was that the letter was not recited in the Order in Council?—A. I will tell you the reason. In my judgment it would be very bad draughtsmanship, and what is more, I do not believe that you, acting for a client, would think of putting a letter of that kind in an Order in Council.

Q. I do not think there is any book of precedents on Orders in Council?—A. There is not, I have discovered that.

Q. I think they are like the rules of Chancery, "the length of the Chancellor's foot." There was no reason, I take it, for the fact of the letter to Sir Charles of May 31st, not having been mentioned in your statement to the House?—A. Mr. Ralston, as a matter of fact, I would regard it as being a very bad thing, as a matter of law. It is not draughtsmanship to put a letter in that document. The letter was merely a convenience to enable the president of the Bank of Montreal, as I pointed out, to carry on his negotiations with the other banks, to show he had something that was binding upon the government, and not reduced to an Order in Council, because an Order in Council is a formal instrument. The letter is an evidence of good faith, and it is not usual, in a formal instrument, to recite any evidence of good faith that may have been exchanged between the parties prior to the formal instrument being made.

Q. I will give you two reasons since you have put it to me. One reason is that the letter there shows moneys which actually had been advanced of over $28,000,000. There was nothing informal in that. It was a very important document to the bankers. And the other is this, if I may suggest it only because I happened to occupy a very humble position in the ministry. It seems to me it would have been well for the minister, whoever it may have happened to be, to have his action ratified by having the letter formally included in the Order in Council. These are the two reasons that appeal to me.—A. Well—

Q. Not as a matter of law, but as a matter of policy.—A. Well, since you put it not as a matter of law, but as a matter of policy, I put it to you this way. The bankers were satisfied with the good faith of the ministry, and I think the letter said it had been approved by my colleagues: "I have discussed the matter with my colleagues and we have decided in the public interest the railway company should be placed in a position to meet the obligations in question, and the government would therefore guarantee payment of the principal and interest of the loan." If it were a letter given by an individual who happened to be Prime Minister, or Minister of Finance, I should say it is improbable that it might be accepted, but in this instance it was an agreement—a letter, signed by the Prime Minister, with the approval of his colleagues, and to recite it in a formal instrument was at variance with any rule I know of, because this instrument is a formal Order in Council, and relates the whole transaction from the inception to its finish. In order that the statements of fact might be checked, I sent a draft of the order in council, Mr. Ralston, to Montreal, in order that there might be no doubt as to its accuracy.

Q. I want to ask just two other questions. I think one has already been answered. Do I understand you had no discussion with the banks yourself, previous to May 31st, with regard to this matter?—A. You can say that I had nothing whatever to do with any negotiations that took place with respect to the chartered banks of Canada making advances to the Canadian Pacific Railway Company, but I was informed that the proposals had been agreed upon. I did not know, Mr. Ralston, the extent to which each of the banks had

undertaken to make advances until long after, except of course, that statement that does not apply to the Bank of Montreal, and Sir Charles Gordon did speak to me about that, but not as to what the other banks were doing.

Q. You said you were informed that the other banks were doing something; you didn't know the amount?—A. No. I didn't know the amount until, as a matter of fact, when I was preparing the Order in Council I took steps to verify these amounts, because I was not familiar with what was being done. In other words there was no privity between the other banks and ourselves, no communication between the other banks and the government, except that the Bank of Montreal did carry on negotiations.

Q. You were informed by Sir Charles Gordon and Mr. Beatty?—A. Yes, I think Sir Charles Gordon informed me. I cannot recall the details, but my recollection is that, before I left for England, Mr. Beatty told me, on the telephone, that the other banks had agreed; but whether or not he told me that before I left, or told me in London, I am not going to say. At any rate, he did tell me that the other banks had agreed.

Q. May I remind you that I think in the letter of May 31, you indicate that Sir Charles had told you that the other banks agreed?—A. Yes. I thought you meant subsequent to that letter.

Q. No, I meant before it?—A. Yes, I know before that he told me that he believed the other banks would.

Q. I thought he said that they had?—A. Well, does it say that? He didn't say they agreed. The letter says: "You have explained to me the proposal which I understand has already been discussed with the Canadian banks for financing certain capital obligations—"

Q. The second paragraph, the last three lines?—A. The second paragraph? "I appreciate that, owing to disturbed economic conditions, it is impossible to obtain the required amount in any of the foreign markets, but understand that the banks acting in concert, are prepared to advance the required amount, if the government will guarantee payment of the principal and interest." That is what he gave me to understand, but without giving any indication as to what sums would be advanced by specific banks, or what banks, in fact, were going to be included in the syndicate.

Q. Was the Order in Council forwarded to the bank for approval?—A. From looking at the correspondence I find that the bank apparently started to draft an agreement before I came back. Sir George Perley commenced one on August 31; that is the draft I refer to, but I sent my copy down, my memory is, by the porter of the railway company to the president to deliver to the bank, to see if all the figures were correct, and it was sent back to me, I think, next day.

Q. Just going back to the point we raised, and that is this: Was the five years first suggested by you or Mr. Beatty?—A. Mr. Ralston, do you expect me to remember that?

Q. Well, I though you would?—A. Well, Mr. Ralston, I am sorry to say that I cannot oblige you. I have no recollection as to whether or not I suggested it; but I would think—and after all, it is only thinking, because I cannot do more than that—that it came from Mr. Beatty.

Q. Was there any discussion at all with regard to future maturities, that is to say maturities after 1934, as to how they would be taken care of?—A. Well, I made inquiries as to the total of the company's liabilities to the bank. That you will see is indicated by the certificate of Mr. Lloyd, as to what the maturities are. There were no further debts to the bank, so far as I could learn; and you will observe that in the order in council reference is made to capital expenditures. That was for the purpose of enabling me to satisfy myself that this money was being used for the purposes for which it was, in my judgment, intended.

Q. I am afraid you do not get me, Mr. Prime Minister. What I was asking was whether there was any discussion between you and Mr. Beatty as to

[The Prime Minister]

maturities, and how they would be taken care of subsequent to the end of 1934?—A. Which do you mean, Mr. Ralston?

Q. As to financing; the company has got a five-year extension of its maturities up to 1934. Suppose a situation arises that maturities in 1935 cannot be taken care of. Was there any discussion between you and Mr. Beatty at all regarding that?—A. Well, my memory again—and it is hazy, Mr. Ralston—is that the opinion was expressed, whether by Mr. Beatty or myself or by both, that if at the end of five years the position was not such as would enable the company to market its securities or renew obligations, as is usual with respect to public utilities, it would not make very much difference to this country anyway what happened.

Q. Now, we are still at cross-purposes. I am not talking about the end of five years. I am talking about the end of 1934. That is only two years, less than two years. I was talking about maturities. There will be equipment trust instalments.—A. Are there?

Q. I don't know.—A. Well, my memory is that we dealt with these matters first of all on the basis of advances from the banks in anticipation of the sale of securities; then, secondly, maturities which in the ordinary course are usually met by refunding, and we did not enter into any detailed discussion of any situation that might arise after this situation had been taken care of, for we believed that the taking care of it in this way left the way open for the Canadian Pacific Railway, that had not recently been paying dividends on its common shares and had ceased to pay dividends on its preference shares, to deal with the situation.

Q. Is the answer that you did not discuss with Mr. Beatty, so far as you remember, maturities maturing after 1934?—A. Well, my memory is that some discussion took place with respect to the general financial situation of the company. If I had its annual report before me, I think I could go over the items, one by one, because I had occasion to look at it. I cannot tell you now, Mr. Ralston, the details of the conversation; but the general situation, financially, of the road was discussed with a great deal of particularity during the last ten months—twelve months.

Q. You do not recall any discussion particularly of maturities, is that it? I am talking about bonds, equipment trust instalments and capital obligations of that kind falling due after 1934?—A. Well, now, speaking from memory—and you must remember, Mr. Ralston, that I am trying to give you my recollection and not make inferences from the facts that I might quote now in the light of knowledge—I cannot tell you that there is a single obligation of the Canadian Pacific Railway Company of any importance that matures before 1937.

By Mr. Hackett:

Q. Mr. Beatty said that equipment trust instalments were paid out of earnings?—A. There are payments on equipment trust. He spoke about maturity of bonds and debts to the bank. My understanding is this, that the financial operation that took place disposed of the entire obligation to the banks and substituted for those obligations the new obligation to the banks amounting to $60,000,000, secured as I have indicated; and that outside of a trifling matter such as equipment trust instalments, there were no obligations that matured prior to either the year 1938, or the year before that, that need give any concern, because I did go into the financial position of the Canadian Pacific Railway during the last twelve months with a good deal of care.

[The Prime Minister]

By Mr. Ralston:

Q. Did you ascertain what the debts, which were being handled by this loan, represented?—A. Yes; and, Mr. Ralston, I recall very distinctly that, when I was drawing the Order in Council, being a little uncertain about one point, I telegraphed, or telephoned, down to Montreal for the purpose of satisfying myself upon that point.

Q. No, I was not asking that; I meant the object for which the money was spent originally?—A. Oh, no, no. It is sufficient for me to know that there were debts that had to be met at the banks.

The CHAIRMAN: Are there any other questions?

By Mr. Raymond:

Q. Do I understand that when Mr. Beatty submitted to you a confidential memorandum to which you have already referred, you knew that other banks other than the Bank of Montreal would participate in the loan?—A. Sir Charles Gordon was here that day, or the day after, Mr. Raymond, and the question of the loan did not come up until after that, because he told me of the memorandum; I recall that very distinctly, and I can recall very definitely the kind of paper that it was on; it is just an impression in my memory. I read that to my colleagues; it was marked "confidential", and my recollection—I may be wrong as to that—is that I gave it back to Mr. Beatty, because I find no trace of it among my papers, and I do not like to have papers marked "confidential" on public files.

Q. Do I understand that you learned that day that other banks, other than the Bank of Montreal, were going to participate in the loan?—A. Well, on the 31st day of May, I certainly did.

Q. The 30th, the day of the confidential memorandum?—A. Well, that is the day, is it, that fixes the date?

Q. Yes.—A. Well, it was the next day I wrote the letter, and during that period of time when Mr. Beatty and Sir Charles Gordon were here—whether they stayed over night or not, Mr. Raymond, I can't say—I certainly did learn what is indicated in that letter.

Q. Do you mean in the letter dated May 31st?—A. Yes.

Q. So when you state in the letter:

> Dear Sir Charles
>
> You have explained to me the proposal which I understand has already been discussed with the Canadian banks—

I would like to know when such explanation took place?—A. When?

Q. Yes.—A. During the time of his visit here, on that occasion.

Q. Before the 30th of May?—A. No, no, during his discussion with me.

Q. No, but the discussion took place with Mr. Beatty?—A. Oh, yes, but Sir Charles was here with him at that time. That is my understanding, my memory at least is that he was here.

Q. This letter was addressed to Sir Charles Gordon. Was a similar letter addressed to the other banks? —A. No.

Q. How did the other banks know that you were willing to guarantee the loan?—A. That was a matter betwen Sir Charles Gordon and them. I had no communication with the other banks, Mr. Raymond. So far as I can recall, at the moment, I am almost certain that is so.

Q. Was any other form of guarantee except the Order in Council given to the other banks other than the Bank of Montreal?—A. So far as this government is concerned, the entire transaction—if you wish to use the word "guarantee"—is represented by the letter of the 31st of May and the Order in Council.

[The Prime Minister]

Q. No other form of guarantee was given to the other banks that participated in the loan?—A. Well, they may have been given communications and letters from Sir Charles Gordon.

Q. But nothing from the Prime Minister or the other Ministers of the government?—A. Do you refer to the agreement signed by the Minister of Finance pursuant to the Order in Council? You see, Mr. Raymond, the Order in Council provides that the Minister of Finance shall give to each of the participating banks an agreement.

Q. This would have been after the 29th November?—A. Yes.

Q. No, I am not referring to that?—A. Well, Mr. Raymond, have you anything in your mind because I certainly have not the slightest knowledge in the world of it.

Q. The only thing is this, I believe that banks do not make any advances unless they have on their file proof that the loan was guaranteed by the government; that is my belief, I may be wrong?—A. You may or may not be correct, Mr. Raymond, but certainly nothing came from this government to the other banks. That was a matter between Sir Charles Gordon and the banks.

Q. Now, in a letter dated the 25th of September, signed by W. A. Bog and addressed to the Prime Minister, he refers to a letter of the 22nd September emanating from the Prime Minister. I think you must have overlooked the production of that letter because I do not find it amongst the letters which were produced the other day in the House of Commons.

The CHAIRMAN: What date.

Mr. RAYMOND: 22nd September.

The PRIME MINISTER: That is quite understandable in this way: You see it is marked "confidential." My memory is that first of all there was a telephone message asking for the particulars of those obligations, and then a short note was sent asking for it. I cannot lay my hands on that in my file, but that letter came with particulars from Mr. Lloyd. Now, Mr. Raymond it is only fair to say I had the statement and verified it. I wanted to be sure that I was absolutely correct, and that is the reason I asked for that document a second time. There is nothing behind that. As a matter of fact, I received from Mr. Curle the statement, signed by Mr. Lloyd.

Q. In the order in council dated 29th November there is inserted an agreement covering all the terms and conditions of the transaction. Who prepared that agreement? Was it prepared by the banks or the government?—A. I have given you my understanding of that. The banks had a draft of an agreement that they thought would be satisfactory, and as a matter of fact, that draft was discarded and I prepared that document as it stands. I prepared that agreement which you see at Page 5 of the order in council, and that I regarded as ample for anyone's purpose dealing with the government and, as far as I know, Mr. Rhodes as Minister of Finance executed the agreements.

Q. You mean the one prepared by the bank was discarded?—A. Yes. This represents what was prepared by me. I saw the general structure of what the banks wanted in their agreement, but I prepared the agreement, as it stands, myself.

The CHAIRMAN: Are there any other questions gentlemen? If not, the Prime Minister will be discharged. He has to go away to-night.

By Mr. Howard:

Q. Mr. Prime Minister, may I ask just one question? When the Bank of Montreal first loaned the money to the C.P.R. the rate of interest was at 4 per cent. When the loan was renewed it was raised to 5 per cent. After the government gave the guarantee the interest rate was still continued at 5 per cent. Does the Prime Minister think that is a fair rate considering that we have been trying

to get cheaper money and that the savings bank rates have been reduced from 3 to $2\frac{1}{2}$ per cent on the small depositors?—A. I do not know, Mr. Howard, that it can be said to arise out of this. The bargain that the Canadian Pacific Railway had made was the bargain indicated. I have myself intimated that I thought the rate was too high, and I have suggested that even yet a lower rate should be put in force.

Q. It did not look right to me. The bank had loaned to the Canadian Pacific Railway Company on their 4 per cent perpetual debenture stock at 4 per cent and then they raise the rate to 5 per cent when the government of Canada guaranteed the security.

Mr. BOWMAN: That is not quite correct.

The PRIME MINISTER: Mr. Howard, that is hardly a fair way to put it; but this is the fact, I have told them that I thought the rate charged was too high, but at the time when the matter was under negotiation it was a matter between the railway company and the banks and they agreed, by contract, to pay that sum. I have told them, since; I have told the President of the road—and I told one of the other banks at least, I am not sure two—that I thought they were charging too high a rate.

The CHAIRMAN: Any other questions gentlemen? If not the Prime Minister is discharged as a witness.

The PRIME MINISTER: Now, gentlemen, do not be the least hesitant in asking me any questions, because I do not want you to go away and say that I have endeavoured to escape answering, so don't be hesitant, please.

The CHAIRMAN: If there are no more questions, I suggest we adjourn until Thursday morning, at 11 o'clock.

The committee adjourned at 9.30 P.M.

HOUSE OF COMMONS,

March 22, 1934.

The Select Standing Committee on Banking and Commerce met at 4 o'clock, Mr. R. B. Hanson in the Chair.

The Chairman filed a series of certified copies of Orders in Council.

The CHAIRMAN: Apropos of the discussion this morning, the Minister of Finance has a statement to make.

Hon. Mr. RHODES: Mr. Chairman, apropos of the discussion this morning as to the method of our procedure, it will be recalled, in connection with the motion of Mr. Power, that, on the 13th of March, I made a statement to the committee on behalf of the government, which reads as follows:—

> Speaking for the government I wish to say that it is our desire that there should be no suggestion of narrowing the inquiry. With respect to those topics which are within the purview of governmental activity, the government especially welcomes the most thorough investigation.

May I say that, speaking still on behalf of the government, it has no desire to abridge that statement in any manner whatsoever, not to the slightest degree. It will be recalled that Mr. Jacobs referred to a circumstance that frequently happens in the house when the government, within its right, has made a statement that a question or some topic was not a matter which should be dealt with, or disclosed, having regard to the public interest, and rather intimated that similar action might be taken by the government. In this connection, may I say to Mr. Jacobs, and to the committee, that the government proposes to take no such stand. The committee itself must be the arbiter as to how far it cares to proceed, and as to the effect, if any, upon the public, as to any answers which may be given to questions that are submitted. The committee itself must assume the entire responsibility.

The CHAIRMAN: Gentlemen, in view of the statement of the minister, what is your pleasure?

Mr. POWER: There is nothing before the committee?

The CHAIRMAN: Yes, there is your submission, of March 6, paragraph No. 4, *re* relation of banks to wheat pools, etc., and a motion of Mr. Bowman's.

Mr. BOWMAN: I did not make any motion this morning; I did not submit one. May I again make my position quite clear in connection with this matter? Realizing what the Minister of Finance has just said, it is still my own personal opinion that it is not in the interests of the wheat producers of Canada, nor in the interests of Canada itself, that the details of wheat held by the government representative, or the pools, under the arrangements, which are mentioned in paragraph 4, and which is coming up for discussion this afternoon, should be made public. May I remind the committee that in the United States, where for a number of years they had a marketing board, which bought and sold hundreds of millions of bushels of wheat, the amount of wheat from time to time held by that board was kept strictly secret, and was not divulged to the public until the board was wound up. I am still of the same opinion as I

[Mr. John I. McFarland]

expressed this morning, I do not think it is in the interest of the public that this information be sent broadcast throughout the world. So far as Mr. McFarland's examination is concerned, I am not going to put any definite resolution before the committee, but as his examination proceeds, if a question arises, or he is asked to state the present or any holdings of the agency which he represents, I am going to lodge a formal objection to the question being answered.

The CHAIRMAN: What is the pleasure of the committee; shall we proceed with the examination of Mr. McFarland?

Hon. Mr. MACKENZIE (*Vancouver Centre*): I think it would be more advisable to have Mr. McFarland make a statement to the committee, and it would be then in the discretion of the committee what questions would be answered.

The CHAIRMAN: Is that the wish of the committee?

Mr. MERCIER: Let us proceed the same way as we proceeded with Mr. Beatty.

JOHN I. MCFARLAND called.

Mr. Chairman, and hon. members, before making the statement which I have here in my hand, I am going to ask you to go back to when I started into this position, in 1930, and the circumstances leading up to my assuming the position. I landed in Montreal from the Imperial Conference shortly after the middle of November, 1930. I was met at the railway station by Mr. A. J. McPhail, president of the Canadian Co-Operative Wheat Producers' Association, in the morning. He told me he wanted to get me at once, because they had been awaiting for my arrival in order to discuss with me the taking over of the position of general manager of that agency. I might go back a little way, to the journey across the Atlantic. That was the time when the bottom fell out of wheat. We were about half way over when wheat went down to 50 cents per bushel. Those were the circumstances under which I arrived in Montreal —an unheard of price—and my first reaction to it was, no, I did not want to undertake such a responsibility. However, I went down to see some of the bankers. The bankers said someone must take it. Mine was the only name mentioned, and all the interested parties were agreed that I should act. I put it off for a few days and, finally, made a proposition that, under certain conditions, I would assume the position for a year. I laid down the conditions, and Mr. McPhail went back to Winnipeg, had a meeting of the directors, wired me on the train, that day, accepting these conditions. The conditions imposed by me were as follows:—

(1) That we would close all foreign offices of the pool.

(2) The next condition of any importance was that I would accept no salary for the work which I was undertaking. They agreed to that and I was launched, much against my will and better judgment, into the wheat problem.

Now, that is the position leading up to it. The Canadian Co-Operative Wheat Producers engaged me. I have reported to them at each meeting that they have had ever since. I have attended the meeting and reported to them. It is under that condition that I conducted the business which I have been administering. I will now read you my reply to the notice of the proceedings of this committee.

> I notice that the proceedings of this committee, before which I have been asked to appear, refer to speculation in Winnipeg and Chicago wheat. I wish to state most emphatically that we have not speculated

[Mr. John I. McFarland]

in a single bushel of wheat in the operations which I have directed for the Canadian Co-operative Wheat Producers Limited since November, 1930. Moreover, we have neither bought nor sold a single bushel of wheat or any other grain in Chicago. All our dealings have been in Winnipeg only. "Speculation" as I understand it, means buying and selling stocks or goods in the hope of profiting by changes in the market value. Our operations were governed by no such considerations. Our only object since undertaking the operations which I have directed has been to assist the farmer in marketing his wheat, that is, transferring it from his farm to the ultimate consumer. Under normal economic conditions, when there was a fair equilibrium between supply and demand, the operations of the market so adjusted themselves that there had never been any difficulty in maintaining a reasonable price to the farmer in the transfer of his product to the consumer. Conditions in the past few years in the Canadian market have been such that the normal play of forces has disappeared, and some machinery had to be provided to take their place unless the wheat was to remain on the farms of the country. A wheat board was the usual suggested alternative. The method that has been pursued since November, 1930, has been an application of the principle of a wheat board although Canada has not been directly interested in the transactions which have been made through the Canadian Co-operative Wheat Producers Limited, of which I was appointed by the directors, the manager, and which position I still retain. By the adoption of the method which we have followed, it was hoped to prevent the dislocation of the machinery of distribution built up over the last forty years.

I think I might summarize the situation as follows:

1. Practically all the farmers' wheat is sold by the producers to the elevator companies.

2. The elevator companies pay cash for the wheat so sold and hypothecated to the banks, but inasmuch as the banks' advances in many instances amount to 80 per cent and more of the purchase price of the wheat, the banks, to protect their loans, insist upon the elevator companies selling from day to day the wheat they purchase in order that the possible risk to the banks may be reduced to a minimum. This is called "hedging." Prior to 1930 the purchase of these hedges was made by the speculative public. After 1929 this element largely disappeared and there were few purchasers for these hedges except the Canadian Co-operative Wheat Producers Limited, which has been acting as the buffer between the consumer and the farmer to enable the latter to continue to sell his wheat and receive the proceeds therefor, which otherwise would have been backed up upon his farm and remained there until such time as the demand made it possible to sell it; and with the surplus carryovers in the world it is impossible to say what the result would have been.

3. The use of the word "options" has caused much misunderstanding. Cash wheat purchased by elevator companies is, of necessity, sold for future delivery because it cannot be delivered until it has been transferred to the place where delivery of it can be made to the purchaser. The result is that forward sales, which are called "options" or "futures" are constantly made. Every bushel of wheat that has been purchased by the Canadian Co-operative Wheat Producers Limited can be taken delivery of at the dates fixed for delivery, upon payment of the purchase price.

The CHAIRMAN: You have not alluded, either directly or indirectly, to the relations of the chartered banks to the wheat pool. Can you give us a brief statement on that one particular point?

The WITNESS: The chartered banks have supplied the credits on government guarantees passed by Orders in Council. I have not got the numbers of the Orders in Council; all I was interested in knowing from time to time was that the banks had those guarantees. I may say here, however, some members may not understand exactly about all those guarantees. They were different guarantees. In the opening season of 1931, the three provincial lines of pool elevators, decided to operate independently and run their own business, buying and selling just like any other elevator company. They abandoned the pooling system, except in a small way, on a 35 cent per bushel advance delivered at Fort William for No. 1 northern, and you can imagine very little was delivered for the voluntary pool. So that they undertook to do their own buying and selling the same as any other line company. The banks were not satisfied that those three provincial pool elevator lines had the liquid assets to warrant their credit. Now, the Dominion government guaranteed their accounts to the banks for any loss that might arise in excess of 15 per cent margins which the pool provincial elevator lines furnished on the business. That continued for two years, until last August, when the guarantee expired, and the three provincial line pool elevators have, since then, been carrying on under their own financial arrangements with the banks, without any assistance whatsoever from the government.

The other guarantees were to the Canadian Co-operâtive Wheat Producers Limited. I have not got the numbers of the Orders in Council, but these are the guarantees which are still in existence.

The CHAIRMAN: Gentleman, yesterday I caused to be mimeographed and circulated among the members of the committee all the Orders in Council which have been passed—I think there are nine—and every member of the committee has received them. At the same time Mr. Roberts of the Guarantee Branch of the Department of Finance prepared a memorandum which he delivered to me, and which I have before me. I think this memorandum might be illuminating to the members of the committee, if it were read into the record. If Mr. Roberts is here I shall ask him to read this statement, with particular reference to the numbers of the Orders in Council.

Mr. BOTHWELL: Might it not be advisable to get something of the background of the wheat situation in the west prior to the time Mr. McFarland took charge, and the circumstances that led to the necessity of somebody being appointed as general manager.

The CHAIRMAN: That may be.

Mr. BOTHWELL: It is all a matter of record, in any event, but most of the members of this committee will not have access to that record and will not have acquainted themselves with it. I think Mr. McFarland has been interested in the grain trade sufficiently long to give us that background.

The CHAIRMAN: I understand that one of the general managers of the Bank of Commerce, I think it is Mr. Logan, has a statement of the background. Is that correct, Mr. Logan?

Mr. LOGAN: Yes.

The CHAIRMAN: It was prepared for one of the banks connected with this matter, and I think it might go in.

Mr. MACKENZIE: I quite appreciate the usefulness of those records, but that does not deprive any member of the committee from asking questions, in regard to the effect on any other situation.

[Mr. John I. McFarland]

The CHAIRMAN: No, all rights are reserved.

Mr. BOTHWELL: I have a few questions to ask Mr. McFarland, in order to set up a background to see what the position was. Mr. McFarland did not come into the picture until, as he told us, November, 1930, whereas the situation with respect to the wheat pool and the wheat marketing situation, had become rather crucial, early in 1930. Is not that a fact, Mr. McFarland?

The WITNESS: That happened in the spring of 1930.

By Mr. Bothwell:

Q. As a matter of fact, you well know, Mr. McFarland, that in February, 1930, the three western legislatures passed acts guaranteeing the banks for the advances to the wheat pool, to the Canadian Co-operative Wheat Producers Limited?—A. I know that, as information at the time, yes.

Q. Following that, I think I can put the matter pretty clearly before the committee by reading what the provincial treasurer, in the province of Saskatchewan, said in his budget address, in 1931, in explaining the necessity for the government's standing back of the banks, or guaranteeing the pool accounts to the banks.

The CHAIRMAN: The provincial governments?

Mr. BOTHWELL: Yes. I am reading from the Journals and Sessional Papers, 1931, of the province of Saskatchewan, at page 253. I should like Mr. McFarland to interject, or contradict this, if there is anything wrong with the statement.

> The members of this Assembly will recall at the last session of the legislature an act was passed approving of an agreement between the government and the Saskatchewan Co-operative Wheat Producers Limited, whereby the government guaranteed the Saskatchewan Wheat Pool's share of any loss which might accrue to the seven lending banks financing the operation of the Pool's Selling Agency, as a result of advances made by these banks against the 1929 crop and also the unsold balance of the 1928 crop.

Now, my first question, in connection with that, is this: When you became manager of the wheat pool, or the central selling agency, I may call it, did you take into your hands any of the 1928 crop, or had that been disposed of?

The WITNESS: My recollection is that the 1928 had been disposed of, but there was a balance of 1929.

Mr. BOTHWELL: He goes on to say:

> Provision was made that, in consideration of the government giving this guarantee, the pool would repay to the government any monies which it might be called upon to pay to the lending banks under the guarantee. In the event of its being unable to reimburse the government immediately, the pool agreed to give to the government security on its real and personal property.
>
> The above agreement was made on March 14, 1930, was ratified by this legislature and assented to on April 10, 1930. Bills of a similar nature were introduced in the legislatures of Manitoba and Alberta and became law in those provinces.
>
> At the time this agreement was executed, no overpayment by the pool had developed. Beginning about June last year, a steady decline in prices commenced, which decline continued until the end of last year, the lowest point being reached on December 26th last, when the cash

> closing price reached the new level of $50\frac{5}{8}$ cents per bushel basis No. 1 northern, Fort William. This is the lowest price ever recorded for Canadian wheat.

That is, up to that time.

> This drastic decline not only wiped out the 15 per cent margin of safety required by the banks, but it showed that a substantial overpayment had been made to the growers delivering grain to the pool. That is to say, a selling agency was—

which is the Canadian Co-operative Wheat Producers Limited—

> able to secure for this wheat, less money than already had been paid to the growers of such grain.

In that same year, 1931, it is a correct statement of the fact, Mr. McFarland.

The WITNESS: So far as I know, that is a correct statement of the fact. I was not connected with it at that time; you understand that.

By Mr. Bothwell:

Q. Well then, in November, 1930, I find there was a letter written by the Premiers of the three prairie provinces, "E. E. Henderson, Chairman, Lending Banks, The Canadian Bank of Commerce, Winnipeg, Manitoba." It is dated Winnipeg, 15th November, 1930. Will you tell me now just when you did take charge, when you were appointed?—A. November 30.

Q. This letter is dated 15th November and I think will explain to all the members of the committee just what the situation was that brought about this payment. "As a result of the discussions we have had with our committee to-day, we as representatives of the respective provinces of Saskatchewan, Manitoba and Alberta, are prepared to agree to the following proposals which have already been approved by officials of the Canadian Co-Operative Wheat Producers Limited.

(1) The Canadian Co-operative Wheat Producers Limited will install as soon as possible a general manager acceptable to the banks to act at least until such time as the balance of the 1929 and the present 1930 crops have been disposed of.

(2) That all sales of cash grain made from this date until the expiration of one month shall be allocated to the 1930 crop in so far as possible except as provided in clause 3.

(3) That advances of $211,000 made on 14th November and $350,000 made on 15th November, or additional amounts which may be required by the clearing house to protect the margins on the long position acquired in the course of disposing of the 1929 crop estimated at approximately 7,000,000 bushels, shall be properly chargeable against the 1929 crop and shall be repaid as soon as possible from sales of 1929 crop; it being understood that you will agree to sufficient sales being credited to the 1929 crop to meet this condition. Apparently at that time the Central Selling Agency was long some seven million bushels, or they had wheat on option to the extent of seven million bushels. Did you find that situation when you took charge?—A. Just what is that question again, please.

Q. I say apparently at the time this letter was written, on the 15th November, 1930, by the three western Premiers, the Central Selling Agency of the pool was long some seven million bushels of wheat, that is, they had purchased on margin, or had purchased in some way, some seven million bushels of what, is that correct.—A. I recollect hearing about that at the time, but I think at the time I took charge that had been wiped out.

Q. You think it had.—A. Yes, that is my recollection.

[Mr. John I. McFarland]

Q. Then the next clause, it does not concern us very much but possibly I had better read it all:

> Inasmuch as it is represented in a letter dated 14th November from Price Waterhouse & Company as auditors that certain moneys have been credited to the 1929 crop which should properly be credited to the 1930 crop, we agree to such adjustments being made forthwith as will rectify any errors in allocation.
>
> It is our intention to cable the Right Hon. R. B. Bennett urging his government to take action with respect to the present crop and it is agreed that the Lending Banks will take care of the situation until the morning of the 17th instant.

That is the 17th November. Now, the position was this: the various western provinces had given guarantees to the seven lending banks, prior to the 15th November, 1930, that is correct. On the 15th November, 1930, the western Premiers agreed to cable to Mr. Bennett, and they outlined in this letter to the banks what they were prepared to see done by the pool, and as a result of that letter, and the subsequent negotiations, I presume that is what led to your appointment.—A. I did not know about that.

Q. You did not know about that.—A. No.

Q. Well then, I just have another question. I find that an arrangement was made then whereby when you took over the management of the Central Selling Agency you were to sell 50 per cent of the 1929 crop and 50 per cent of the 1930 crop.—A. The sales were to be divided between the two crops. I forget the percentage on each, so that they would each be reduced at the same time in a gradual way.

Q. I will just read you one paragraph, so that it will clear that up. This is an agreement, dated 26th August, 1930, and I presume continued down until possibly you took charge:

> (1) That commencing forthwith all sales of wheat made by the company will be apportioned equally as to value between the old crop and the new crop, that is, as sales are made from time to time an equal quantity in value of each crop shall be sold in so far as is practicable.

That was the first arrangement; that was later changed to 75 per cent of the new crop and 25 per cent of the old crop. Now, Mr. McFarland, the question I want to ask in that connection is this: When you took over the management of the Central Selling Agency had you any instructions as to how you were to sell the 1929-30 crop.—A. Yes, the sales were to be divided—I forget whether it was 50/50 or 75/25—between the 1929 wheat and the 1930 wheat. The banks were interested in the amount they had loaned and the three Provincial governments were intereseted in the amount that they had guaranteed, in 1929, and they agreed to carry this on that division.

Q. First of all, all the 1929 wheat had been disposed of.—A. Oh yes, long ago.

Q. And has all of the 1930 wheat been disposed of.—A. No.

Q. How much is still held?

The CHAIRMAN: I do not think you had better ask that, Mr. Bothwell.

By Mr. Bothwell:

Q. Well, I want to read a recital from an Act passed in Saskatchewan, in 1932. That is, you mean the 1930 wheat was not disposed of, that is, the 1930-31 wheat was not disposed of.—A. That is right.

Q. But the 1929-30 crop had been disposed of.—A. Yes, that is all disposed of.

[Mr. John I. McFarland]

Q. Well then, when the 1929-30 crop was disposed of that would allow the various western provinces to find out exactly what their loss was.—A. Exactly; that was all adjusted.

Q. That was all adjusted.—A. Yes.

Q. And it was adjusted in connection with all the wheat that was grown in the crop years up to and including 1929-30.—A. That is correct.

Q. Well then, the first Order in Council that we have here, Mr. McFarland, is one dated the 12th September, 1931, and just reading shortly from that—

The CHAIRMAN: Could you identify it by number, Mr. Bothwell.

Mr. BOTHWELL: P.C. 2238.

The CHAIRMAN: There are two of that date; they run consecutively in number.

By Mr. Bothwell:

Q. I just want to read one or two of the operative clauses in that. Up to that time, or from the 30th November, 1930, Mr. McFarland, you were acting solely for the Central Selling Agency of the Pool.—A. Correct.

Q. In order that the committee may understand we had better get those terms defined. The Central Selling Agency of the Pool was the Canadian Cooperative Wheat Producers Limited.—A. Yes.

Q. And The Canadian Co-operative Wheat Producers Limited was made up of Manitoba Wheat Pool and the Manitoba Elevator Company; the Saskatchewan Wheat Pool and the Saskatchewan Elevator Company; the Alberta Wheat Pool and the Alberta Elevator Company.—A. It was an organization created to take over from the three provincial Pools the wheat delivered to each Pool by the farmers, and it was their business to dispose of the wheat and report the proceeds back to each province.

Q. And each of these six organizations that I mentioned have representatives on the Central Selling Agency, or on the Canadian Co-operative Wheat Producers Limited.—A. Each of the three have; I don't know about each of the six.

Q. I see. There are three Pools and three Elevator Companies, subsidiaries of the Pools.—A. I think it is just the Pools who have representatives on the Central Selling Agency. I would not be sure about that though.

Q. You were operating then solely on your appointment by that Central Selling Agency.—A. Exactly.

Q. That is, throughout the year 1931.—A. From November 30th, 1930.

Q. Under this Order in Council, P.C. 2238, the Governor in Council guarantees the repayment to the chartered banks, seven of them, of the amount of money advanced by them to the Canadian Co-operative Wheat Producers Limited, and interest thereon until repayment, in connection with the marketing of wheat and other grain grown in the Provinces of Manitoba, Saskatchewan and Alberta in the year 1930, and including advances for purchases of wheat or other grains deemed necessary by Wheat Producers to secure the advantageous sale of such grains already delivered to or to be delivered to Wheat Producers. I presume you have read these Orders in Council, Mr. McFarland.—A. Just this minute.

Q. Never saw them before.—A. No.

Q. There are three Orders in Council there that I would like to draw attention to. There is P.C. 2238; P.C. 1576, that is of July 11th, 1932; and on April 12th, 1933, P.C. 685. Mr. Chairman, the reason I make reference to those, apparently those are the only three Orders in Council that deal with the

[Mr. John I. McFarland]

Central Selling Agency and the banks, that is specifically. They are just continuing the guarantee by the government. Now, one question on this first one I have referred to, P.C. 2238; continued in the others we have the words:

> and including advances for purchase of wheat or other grains deemed necessary by Wheat Producers to secure the advantageous sale of such grains already delivered to or to be delivered to Wheat Producers.

Did you take that as authority, Mr. McFarland, to allow you to purchase grain on the exchange other than grain that was being delivered by the producers to the various wheat Pools.—A. The Wheat Pools after July 31st, 1931, did not any longer deliver Pool wheat to the Central Selling Agency; they sold their own wheat, got it from the country and sold it the same as any other elevator company in the West. They did not handle pool wheat at all through us after July 31st, 1931.

Q. What I am trying to get at, Mr. McFarland, is what is the meaning of that particular clause in there.

Mr. ERNST: Why ask the witness about a clause which he did not draft.

The CHAIRMAN: The committee will have to consider the clause.

Mr. ERNST: Certainly, not the witness.

The CHAIRMAN: That is ultimately I would say.

By Mr. Bothwell:

Q. In any event, Mr. McFarland, after July 31st, 1931, there was no pool wheat being delivered to the Central Selling Agency or to you as manager.—A. No physical wheat.

Q. Physical wheat.—A. No.

Q. You had, however, the crop of 1930-31 still to dispose of.—A. The crop grown in 1930, the balance of it still undisposed.

Q. And there is still a part of that undisposed.—A. Yes.

Q. Is there any objection to the amount of that being given.

Mr. BOWMAN: I do not think it should be given, Mr. Chairman.

Mr. BOTHWELL: I will not press it, if there is any objection.

The CHAIRMAN: Do you think yourself it is wise, Mr. Bothwell? I put it up to you.

Mr. BOTHWELL: I really do not see, from the standpoint of the carry-over from that 1930 crop, that that can be at all dangerous. However, I will not press it at the moment.

Mr. IRVINE: Does Mr. McFarland have any reason to think it would not be wise to give it, Mr. Chairman.

The WITNESS: Personally, I don't mind giving you everything—to the minutest detail. I have nothing to hold back whatsoever. It is simply a matter as to whether it is the best thing, for the country as a whole, or not. But that balance that was carried over, and has not been sold since 1930, has acted as a supporting influence up until now.

By Mr. Bothwell:

Q. Well then, I think this is my last question: So that, so far as you were concerned, or are concerned, the only actual wheat that you now have in your possession, or in the possession of whomever you represent—in your possession as manager—is the balance of the crop grown in the year 1930, whatever that may be.—A. Oh, no, we have more than that.

Q. Where did that come from, the additional wheat? It is the actual physical wheat I am talking about.—A. Oh, physical wheat. No, we have not got any actual physical wheat. We are carrying the hedges in the option market.

[Mr. John I. McFarland]

Q. I am not concerned with that for the moment. My question was, that the only actual physical wheat that you have, as manager of this Central Selling Agency, or for whomever you represent, is the balance of that crop grown in the year 1930.—A. No, we are not carrying the actual wheat; we are carrying some futures. If you carried the actual wheat, the expense of carrying it would be far far heavier than to carry it in the form of futures, or options. Take a twelve month term, in carrying actual physical wheat it would cost you around 15, or 16 cents a bushel. By the method which we have adopted in carrying it, it has cost around about 10 cents per bushel, but remember we can always get delivery in that way, whenever we want it.

Q. I had better put the question in another way: You still have a balance of that crop grown in 1930 held by the Central Selling Agency in some form.—A. Exactly.

Q. That is all just now. I am not going to ask the amount of that, until I have considered that further. I just want to get the picture of the situation in the past. The indebtedness of all the provinces, all the western provinces, has been adjusted.—A. Yes, on the 1928-29 crop.

Q. And the 1929-30 crop.—A. Well, the crop grown in 1929—

The CHAIRMAN: Gentlemen, at this stage would it not be wise to have a statement from Mr. Roberts, of the Finance Department. He has had a memorandum prepared as to the effect, in a concrete way, of the Orders in Council that are relevant. Some of them have been washed out and he has prepared a statement which I think will be very helpful at this stage.

Mr. POWER: I only want to point out this to the Chairman that, as I understand, Mr. McFarland is only at our disposal for to-day; he must leave to-night, or to-morrow morning—

The CHAIRMAN: This will not take long.

Mr. POWER: And I think perhaps we will have a number of questions to ask Mr. McFarland.

The CHAIRMAN: Do as you like, gentlemen, but I thought it might be in the interests of clarity if this statement were read.

Mr. B. J. ROBERTS: *1930 Crop.* The first Order in Council P.C. 2238 of September 12, 1931, implemented the undertaking of the government made prior to the 1931 session, that the government would guarantee advances, and interest thereon, made by the several chartered banks to the Canadian Co-operative Wheat Producers Limited in connection with and incidental to the marketing of wheat and other grains grown in the provinces of Manitoba, Saskatchewan and Alberta in the year 1930. This order was passed under the Unemployment and Farm Relief Act, 1931.

Order in Council P.C. 1576 of July 11, 1932, passed under the Relief Act, 1932, having regard to the fact that a portion of the wheat and other grains in the possession or control of the Canadian Co-operative Wheat Producers Limited had not, at the date of the expiry of the 1931 Act, being sold or realized upon, guaranteed, in addition to advances made, such further advances as might be obtained from the banks to protect purchases of wheat already made or to be made.

Order in Council P.C. 685 of April 12, 1933, passed under the Relief Act, 1933, further extended the original guarantee given in respect of the operations of the Canadian Co-operative Wheat Producers Limited, by guaranteeing further advances after the 31st day of March, 1933 (when the Relief Act, 1932, expired) in respect of contracts already acquired or in respect of contracts in substitution for or in addition to existing contracts for delivery of wheat and other grains, in order to secure the advantageous sale or disposal of such grains and contract.

[Mr. B. J. Roberts]

This is the Order in Council under which advances for current stabilizing operations are guaranteed.

1931 Crop—

Orders in Council P.C. 2239 of September 12, 1931, P.C. 2403 of September 28, 1931, and P.C. 2977 of November 30, 1931, passed under the Unemployment and Farm Relief Act, 1931, relate to the guarantee given to enable the provincial wheat pools to obtain advances required in connection with the marketing of 1931 crop. The first order in council established certain conditions relative to the maximum amount of the advances. The proposed basis was later found to be unsatisfactory and a subsequent order P.C. 2403 amended the basis on which the maximum amount of advances would be determined, and in this connection a certificate of auditors, Messrs. Price Waterhouse and Company, was to determine the maximum amounts of advances that could be made. P.C. 2977 affirmed the maximum amounts to be so advanced, as follows:—

Manitoba	$ 1,250,000
Saskatchewan	12,000,000
Alberta	7,500,000

The Minister of Finance was advised and so reported in the budget speech of 1933 that in connection with the marketing of the 1931 crop, the advances made by the banks and guaranteed by the government were repaid with the exception of small balances transferred to the 1932 crop year, and no liability accrued against the government under these orders in council.

1932 Crop—

Order in Council P.C. 2077 of September 20, 1932, passed under the Relief Act, 1932, authorized similar arrangements for the marketing of the 1932 crop as were in effect for 1931, and established a maximum amount of advances to each of the pools, as follows:—

Manitoba	$ 1,395,000
Saskatchewan	15,000,000
Alberta	9,000,000

P.C. 508 of March 20, 1933, guaranteed such further advances as might be required in connection with an additional payment of 5 cents a bushel in respect of wheat delivered on the pool plan, in connection with the marketing of the 1932 crop. The basis of advances originally authorized was 35 cents per bushel No. 1 Northern, Fort William, and the additional 5 cents was authorized in order to assist the farmers at seeding time.

P.C. 746 of April 20th, 1933, passed under the Relief Act, 1933, having regard to the fact that a substantial portion of the 1932 crop had not been marketed and was still in the possession of the farmers, and as the 1932 Relief Act expired March 31st, 1933, guaranteed such further advances as might be required in connection with the marketing of the 1932 crop.

As in the case of 1931, the 1932 pool operations resulted in no loss.

In 1933 the Provincial Elevator Pools were able to finance their operations without government guarantee.

By Mr. Duff:

Q. I would like to ask Mr. McFarland a few questions. Do I understand, Mr. McFarland, that you represent the Canadian Co-operative Wheat Producers?—A. Yes, sir.

Q. Do I also understand that you represent the Dominion Government in stabilization operations on the Winnipeg Grain Exchange?—A. No. I represent the Canadian Co-operative Wheat Producers.

[Mr. B. J. Roberts]
[Mr. John I. McFarland]

Q. Well, is there not some connection between you and the Dominion Government with regard to the stabilization of wheat?—A. Only in so far as the government guarantees the banks.

Q. That is in regard to the stabilization of the wheat market in the Winnipeg Grain Exchange?—A. Stabilization is a misnomer; it is really not stabilization; it is really a supporting operation in that period of the year when the farmers are delivering wheat.

Q. Well, that helps to hold up or set the price, does it not?—A. Yes, that helps to maintain the market.

Q. You really, then, occupy two positions in this wheat business?—A. No, I never understood it that way.

Q. What year did you assume responsibility for any position you do hold? —A. November 30th, 1930.

Q. I think you told us that on your return from the Old Country, when you got to Montreal, you were asked to take charge of the situation?—A. Yes.

Q. Will you be good enough to tell the committee who asked you to take charge?—A. Mr. McPhail, the President of the Canadian Co-operative Wheat Producers Limited; he has since died, but he is the gentleman. He met me at the train.

Q. Anybody else?—A. Their whole Board—

Q. Well, was there anybody, in connection with the Dominion government, who asked you to take any responsibility with regard to the situation?—A. Nobody.

Q. This was in November, 1930, that you took charge?—A. Yes.

Q. Will you be good enough to tell the committee what the position of those pools was, or this so called Canadian Co-operative Wheat Producers Association, on the day you became manager; what I mean by that is this, how much money did they stand to lose on their entire holdings, and did you assume responsible management?—A. I do not know; I cannot tell you that; I could not answer that question because I don't remember.

Q. Well, I would take it, Mr. McFarland that you would hardly take charge of this vast enterprise without knowing the exact financial condition of the business?—A. Under the circumstances, yes.

Q. Well, how did you start, if you did not know the financial position of the situation?—A. Just went in and took charge of making whatever sales could be made.

Q. Yes, but you had to make a start in some way with your finances and any sales that you made?—A. The banks were looking after their finances.

Q. Did they look to you to see that the sales were made and to account for the moneys received and the moneys paid out?—A. They looked to me to see that all the sales that could be made would be made.

Q. And there was no balances, either a profit balance or a debit balance, when you took charge; you did not inquire into that?—A. No, I told you that. It was in a very precarious position, that is all I remember.

Q. Perhaps your memory is not good, and perhaps you have not got data before you, but surely you do not mean to tell the committee that you did not know what the exact financial position was when you took charge.—A. No, I cannot tell you that.

Q. Perhaps you do not get my question. I can understand that you cannot tell from memory, but what I am trying to find out is, if, when you did take charge, you looked into the financial situation, the exact position of the holdings of wheat and the financial condition? When you took charge you knew exactly what that position was.—A. I did not have to look into that; the banks had looked into it. There was no time. The banks were agreeable that I should go in and look after it.

[Mr. John I. McFarland]

Q. Can you tell me whether the banks informed you that they had full cognizance of the financial condition when you took charge. Someone must have known the exact position.—A. The banks, of course, were very much exorcised about it.

Q. You mean to say they came to you and asked you to take charge without telling you the exact financial position at the time you took charge.—A. Certainly.

Q. They did.—A. Yes. I got no statement of exactly how they stood financially.

Q. Therefore, you cannot tell us how much money this organization stood to lose at the end of the first crop year after you were manager.—A. You mean the end of 1931.

Q. No, no, July 31st, which, I think, is the end of the crop year, not the end of the calendar year. July 31st is the end of the crop year, is it not.—A. Yes, that is the end of the crop year.

Q. Well, can you tell us how much money the organization stood to lose, at the end of that crop year.—A. No, but if I had known what questions were going to be asked, I could have brought that with me.

Q. It would be impossible for you to know what questions were going to be asked by some members of this committee.—A. The banks will probably be able to give you that.

Q. I did not know myself what questions I was going to ask until I made them up.—A. Well, the banks would probably be able to give you that.

Q. You think I could get the information from the banks.—A. I know I could get it from Winnipeg.

Q. Well, but we would like to get this information as soon as possible giving the exact conditions. I understand you are going away to-night or to-morrow, to Rome, which is a good place to go to.

The CHAIRMAN: I understand the banks can supply that information.

Mr. DUFF: I am asking Mr. McFarland.

The CHAIRMAN: Mr. Duff, may I point out to you that Mr. McFarland came here without knowing beforehand that he was going to be examined as a witness, therefore, he did not not bring his records with him.

Mr. DUFF: I appreciated that, Mr. Chairman, and I am sure I sympathize with Mr. McFarland in his position, Mr. McFarland happens to be on the stand to-day as a witness on a very important matter. If Mr. McFarland has not got the information, that is not my fault. What I am trying to do, as a member of this committee, is to find out what the condition was when Mr. McFarland took this business over, and I cannot understand how any business man would take over an organization of this kind without seeing if there was any money in the treasury—any money on hand—the amount of stock, indeed the exact position.

The WITNESS: I was not becoming responsible for the company, I was only becoming responsible for sales.

By Mr. Duff:

Q. If you were not responsible, then who was responsible.—A. The directors.

Q. Who are the directors.—A. Mr. McPhail was the president. I can name the directors all over to you; they change from year to year; there are nine.

Q. Well, would they keep the books of this organization, this Central Selling Agency, the Canadian Co-operative Wheat Producers Limited.—A. The books were kept, under their direction, by their accounting staff. I was only taking charge of sales.

Q. Well, what did you do, Mr. McFarland.—A. I took charge of sales.

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Q. What did you do when you sold a million bushels of wheat, say, who would you account to?—A. Account to the accounting staff.

Q. The accounting staff?—A. Yes.

Q. And they would collect the money?—A. Absolutely.

Q. Well now, you mean to say that you cannot tell this committee how much money this organization stood to lose at the end of the crop year, July 31, 1931?—A. I could not.

Q. Well, you were the selling agent. How could you arrive at the sale price without knowing what the cost price was?—A. I do not think the sale price of very many things has been based on cost for the last three years; cost has had nothing to do with sale price.

Q. In other words, it was a forced sale for the last three years?—A. No, it is a matter of sell as best we can.

Q. I think perhaps I agree with you there. Can you tell me, Mr. McFarland, where I will get the information as to the financial position of the organization of July 31, 1931?—A. July 31, 1931.

Q. Yes?—A. Well, I think the Chairman mentioned that the bankers might probably have something with them on that.

Q. Which bankers?—A. The bankers of the Co-operative Wheat Producers.

Q. Do you know who the bankers were?—A. Yes.

Q. Who were they?—A. There is the Bank of Montreal, the Royal Bank, the Bank of Commerce, the Dominion Bank, the Bank of Toronto, the Bank of Nova Scotia and the Imperial Bank.

Q. So that you cannot give us any information wih regard to that matter, that is, with regard to the crop year, July 31, 1931; you cannot tell us what amount the organization stood to lose at January 31, 1932, six months afterwards, is that right?—A. Six months afterwards.

Q. Yes, that is January 31, 1932, can you tell us how much the organization stood to lose then?—A. You mean 1931?

Q. No, no, I mean January 31, 1932, six months after the first crop year, after you became manager or sales agent?—A. I started in November, 1930.

Q. Yes. Well, my first question, Mr. McFarland, is if you had any information to give the committee as to how much money this organization stood to lose then, and at July 31, 1931, and you tell us do not know exactly?—A. I told you I can get it for you.

Q. Well, that is very kind of you. Then you cannot tell us how much money this organization stood to lose on January 31, 1932, six months after the date of July 31, 1931?—A. No, but I can get that for you. I have not got that with me.

Q. And you cannot tell us what the financial position was on July 31, 1932, that is the end of the second crop year?—A. No, but I can get that for you. I can tell you how it stands to-day.

Q. I am coming to that, Mr. McFarland?—A. I have not got a good enough memory to carry all the others.

Q. I sympathize wth you, Mr. McFarland, in that, unless you have all the documents before you. During this period did anybody—either the bankers or the officials who had charge of the Canadian Co-operative Wheat Producers—discuss with you the financial position? You were the selling agent; they were sending you out to sell the surplus wheat crop; did they discuss with you and tell you the financial operations at all at any date, or at any six months' period, from July 31, 1931, or any time during the six months' period up to January, 1934?—A. Certainly. I knew it all the time.

Q. Well then, can you give it to us?—A. No, my memory does not carry me back.

Q. Can you give it in round figures?—A. No, I cannot even do that.

[Mr. John I. McFarland]

Q. Well, was there a profit or a loss?—A. The only thing I was concerned about was to find out how we stood then, or at the present time, and if this committee says I am to give it I will give it.

Q. Mr. McFarland, can you tell us the financial position now?—A. I can if the committee tells me to.

Mr. DUFF: Mr. Chairman, has Mr. McFarland your permission to tell us how the financial operations stood on March 1, 1934.

The CHAIRMAN: That is directly up to this committee, not to the chairman.

Mr. JACOBS: Well, let us have a vote on it and be done with it.

Mr. GEARY: I would like to know why we want it and what is the importance of it before I vote on it.

Mr. DUFF: I think it is most important, Mr. Chairman, that we know.

By Mr. Geary:

Q. Mr. McFarland, could you tell me what bearing the balance sheet of this organization, or its profit and loss account would have on the performance of your duties when you took on?—A. It would not have affected it at all.

Mr. GEARY: I should have thought not.

Mr. LAWSON: Mr. Chairman—

Mr. DUFF: Just a moment, I am asking questions.

Mr. LAWSON: Will my friend permit me—

Mr. DUFF: No, I will not.

Mr. LAWSON: I just want to help you that is all.

Mr. DUFF: I know, it is very kind of you indeed, but I do not think I need your help.

By Mr. Duff:

Q. Mr. McFarland, can you tell me this: If you cannot tell me the financial position on the different six months from July 31, 1931, can you tell me the financial position on March 1, 1934?—A. No, but I could tell it to you nearer than that; I could tell it to you on March 15.

Mr. BOWMAN: Mr. Chairman, I again raise the question which I raised this morning: If the answer to the question involves telling the public the amount of grain which is on hand in the selling agency of the Canadian Co-operative Wheat Producers Limited, then I object to the question on the ground that it is not in the public interest that it be made public.

Mr. DUFF: Mr. Chairman, before you decide, I did not ask him as to the quantity of grain.

Mr. BOWMAN: I said, Mr. Chairman, if the answer involved the disclosure of the amount of grain.

Mr. DUFF: I asked him what the profit or loss was. Mr. Chairman, before you decide, I should like to say that I did not ask the quantity of grain.

Mr. BOWMAN: As I said before, if the answer involves the disclosure of the amount of grain, I shall take objection to it.

Mr. DUFF: I asked him what the profit or loss was, and Mr. McFarland said he could give it to me, as of the 15th March, 1934.

Mr. ERNST: I think you are entitled to that; I think the public are entitled to that.

Mr. DUFF: Thank you.

The CHAIRMAN: Mr. McFarland has no objection at all to answering this question.

[Mr. John I. McFarland]

Mr. DUFF: Thank you.

The CHAIRMAN: If the committee are agreeable to his answering it.

Mr. VALLANCE: With your permission, Mr. Chairman, I should like to ask a question.

The CHAIRMAN: Perhaps Mr. Duff will permit you.

By Mr. Vallance:

Q. Are you carrying two accounts to-day, that is, the old account that you took over, of a certain volume of wheat, when you took office in November, 1930, or have you disposed of that?—A. No, there are two accounts; for accounting purposes they are kept separate.

Q. Now, I wish the committee to know that before they decide to ask whether you should answer this question or not. I know quite well there are two accounts. Is that one you took over in operation to-day?—A. I will bulk the two in the one answer.

Q. You will?—A. Yes; I cannot do it otherwise.

By Mr. Duff:

Q. If the other members of the committee will let me go on in my old ignorant and stupid way, as Mr. Hackett would say, I should like to continue. Mr. McFarland, I hope you have not forgotten my question and the fact that you said you were willing to answer it up to the 15th March, 1934, that is, the financial position of the pool on that day.

The CHAIRMAN: Is it the wish of the committee that the question be answered?

Mr. IRVINE: Before he answers that question, I should like to be sure that his answer is relevant to our inquiry conducted under paragraph 4 of Mr. Power's motion. If the committee is sure that the answer to that question will help to throw light on the question that we are inquiring into, all right, but I do not see how it would. The question we are inquiring into is the "relations of the chartered banks to the wheat pools and the extent to which the guarantees by the Dominion government to the banks, of the said pools' grain market account was utilized for the purpose of speculating in wheat on the Winnipeg or Chicago grain pits."

The CHAIRMAN: Are you raising that as a point of order?

Mr. IRVINE: Yes.

The CHAIRMAN: The point is very well taken.

Mr. DUFF: In answer to that I may say, if my friend will have a little patience, and if you, sir, as chairman of this committee, will allow me to ask Mr. McFarland the question, I think Mr. Irvine will get the answer he requires, and see the relevancy of my question to the motion made by Mr. Power.

The CHAIRMAN: If Mr. Irvine presses his point of order I would have to rule that the point was well taken, having regard to the reference.

Mr. DUFF: What point, Mr. Chairman?

Mr. ARTHURS: I think, on the point of order, that the Power motion clearly decides that it is out of order. This question is out of order. The witness has already distinctly stated that he has used no funds to speculate on the Chicago market, nor has he done any speculation on the Winnipeg market in the ordinary sense of the word.

Th CHAIRMAN: Notwithstanding the technical position, if it is the will of the committee that this question of Mr. Duff's should be asked and answered, I have no objection at all.

[Mr. John I. McFarland]

Mr. LAWSON: I want to raise an objection to the question being answered. I do not want to be obstreperous, or interruptive, in my remarks, but I want a chance to state my position before that question is answered.

Mr. ERNST: May I just say one word? I think the public are obviously interested in knowing how far the government is committed, or not committed, or how far it is out of pocket, or in pocket, on the transaction. I think the public are entitled to an answer, despite the technical objection.

The CHAIRMAN: I agree.

Mr. LAWSON: Mr. Chairman, I am sorry but I will have to take two minutes to state my objection, because it is predicated on what seems to be an erroneous assumption on the part of my friend, Mr. Duff, as to the function of this selling agency. As I understand the situation, the selling agency, when Mr. McFarland took charge of it, did have a volume of physical wheat which it was permitted to purchase at a fixed contract, or a fixed price. It was a selling agency. What it received for its physical wheat must in turn be turned over to its members, less some deduction. I therefore assume that the business of the selling agency, in addition to that, has been by the process which Mr. McFarland referred to as supporting the market, and which has been referred to by some others as stabilizing the market, was on occasions the buying of wheat futures in physical wheat, even though delivery might have been obtained upon demand under those futures. Therefore, I say the grain trade, and I mean those privately engaged in the grain trade—if they are smart, and I presume they are—must have a fairly approximate idea of the volume of futures purchased by Mr. McFarland as against the volume of the sales. If he now states to this committee the definite position of his organization, which is a purely selling one, it is not a matter of difficult computation to get a pretty close idea as to the average price on any contract in respect of which he is now speaking. I quite agree with Mr. Ernst that this information is information to which this committee is entitled, if it demands it. But if it demands it, and gets it, I say it is bound to be injurious to the organization which Mr. McFarland represents in his future operations; and what is injurious to him, and his organization, is injurious to the producer, because his price is affected. Now, if, in view of that, this committee wants to make the information public, that is up to them, but I object to it, for the reasons I have stated.

Mr. DUFF: I do not want to press Mr. McFarland to give me the answer. I asked for the financial condition on July 31, 1931, or any dates within a six months' period. Because sir, if we cannot get it from Mr. McFarland, we can get it no doubt from the banks, or some other source, if we want it. I am quite content. We need not press the point of order further. I am willing to take what Mr. McFarland said, that he was only the selling agent, and did not inquire as to the financial condition from time to time.

The CHAIRMAN: He did not say that.

The WITNESS: I said I knew all the time what the finances were.

Mr. DUFF: Why not give us the information then?

The WITNESS: I have not got it with me.

By Mr. Duff:

Q. Now, I will go on to another point, Mr. McFarland. Is the wheat you originally took over from the Co-operative Producers kept separate from your stabilization operations?—A. In the books of the company, yes.

Q. Would you be good enough to explain to the committee how you stabilize the market. What I mean by that is this: just what procedure do you go through in order to effect your stabilization operations?—A. In the fall of the

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year is the time when most of our operations are carried on. In the fall of the year is the time when farmers are delivering their wheat in volume. In 3, $3\frac{1}{2}$, 4 months' time, almost 70 per cent of the wheat is delivered and sold. Hedging is very heavy there. Our operations were carried on there, in order to create a price, or maintain a price, or a market, so that the farmers would have a market back in the country.

Q. With reference to your stabilization proceedings, did you, from time to time, consult the Dominion government with regard to procedure, as to what you should do?—A. What is that?

Q. With reference to your stabilization proceedings, did you, from time to time, consult the Dominion government who I understand had guaranteed the banks sums of money, or stood behind your operations. Did you consult them or did they consult you?—A. The government had information from the banks regularly as to the standing of the operations.

Q. The information came from the banks, not from you?—A. Not from me.

Q. You had no communications from the government, from time to time, or you did not report to them?—A. We may have had telephone calls in regard to that, if the credits were not large enough to take care of the volume that had to be taken care of; but apart from that we had not anything. We applied to the banks for greater latitude.

Q. Did you make yearly, or half yearly, or monthly, reports to the government with regard to your operations as a selling agency?—A. No; it was as emergency arose.

Q. You had a free hand entirely? The government, if I understand it, guaranteed the moneys required for the operations, and then the bankers did the rest?—A. No.

Q. They asked you for no report?—A. No; they did not give me any free hand.

Q. Did you report to them, and did they inquire what you were doing from time to time?—A. The banks got the report. The Chairman of the Lending Banks got the reports daily, and he sent copies to the Prime Minister, I think.

Q. I understood you to say, Mr. McFarland, in answer to a question of Mr. Bothwell, that you had been dealing in futures to stabilize the price of wheat on the Winnipeg grain exchange?—A. Yes, correct.

Q. Can you tell us what quantity of futures you got from time to time? —A. Well, I can tell you that I suppose, if the committee wants me to.

Mr. BOWMAN: That raises the same question, Mr. Chairman.

The CHAIRMAN: Do you think you had better press that, at this stage?

Mr. DUFF: My object, Mr. Chairman, is not to get down to this year, but surely there can be nothing that will hurt either the producer or holder of wheat to discuss what happened from November 30, 1930, to November 30, 1932. I can understand that perhaps it would not be wise for McFarland to give us the present position, and the quantity.—A. I can tell you this, that our holdings in the fall of 1932, prior to that big crop, were smaller than the year before.

Mr. BOWMAN: Mr. Chairman, in that connection I should like to say this: the records of the grain sold are on the grain exchange, and by giving the holdings at any particular time since Mr. McFarland has taken over, it will then only be a matter of computation—subtraction—to find out what our holdings are at the present time. Is not that correct?

The WITNESS: In a measure, I suppose it may be.

Mr. DUFF: I do not see anything wrong with Mr. McFarland answering my question.

Mr. BOWMAN: I do not think, Mr. Chairman, that it is in the public interest for Mr. McFarland to say what grain the agency holds at the present time.

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Mr. Duff: I did not ask that, Mr. Chairman. What I said was, I was willing to take the quantity from November 30th, 1930, to November 30th, 1932 or perhaps November 30th, 1933. I did not ask about the holdings at the present day. I was very careful in the way I put my question.

Mr. Bowman: The records of the grain sold since that time, of course, are published in the grain exchange. Anybody, by subtracting the answer from the amount of sales since, can arrive at the amount of grain still in hand.

Mr. Duff: If the records are before the public, if anybody can go to those records and figure out in a few minutes by computation, the exact position, what harm is there in Mr. McFarland answering my question?

The Chairman: That presupposes you have a statement of the amounts purchased by Mr. McFarland. The records, as I understand it, are only records of the actual sales.

Mr. Lawson: The records of the grain exchange do not show who the seller or buyer is. The records show who the purchasing broker is, but I presume the brokers do not say, or show, McFarland is the client, or anybody else.

Mr. Duff: The grain exchange would show from day to day what grain is sold, would they not?

The Witness: Oh no—

Mr. Duff: I do not care whether on the farm or in the elevator, or where.

The Witness: They do not keep records like that.

By Mr. Duff:

Q. The grain exchange does not?—A. No.

Q. What records do they keep?—A. The clearing house keeps a record of their clearings transacted during the session.

Q. Do not the clearing houses know the quantity of wheat that is in the elevators?—A. No. The Board of Grain Commissioners keep records of the physical stores of grain.

Q. Somebody has the physical quantity of grain?—A. The grain exchange does not keep it.

Q. Somebody has it, so it is not a secret at all.—A. It has the physical stores in stock; everybody knows that.

Q. What has it cost to stabilize the wheat, either per bushel or thousand bushels or million bushels?—A. I do not know what you mean by that, Mr. Duff.

Q. Perhaps I do not know myself; I am trying to find out; but surely Mr. McFarland, if my questions are not quite clear, with your experience, which is so much greater than mine, so far as wheat is concerned,—all I know about wheat is that for the last three or four years in parliament we have been discussing it, and trying to arrive at a solution as to whether this is a good bargain or not, as to whether the purchaser and seller of wheat was making money or losing money or what the position of the government which is, of course, the taxpayers of this country, is. Surely, if the wording of my question is not good, you can tell me what it costs to buy and sell a bushel, or a thousand bushels, of wheat?—A. You mean the brokerage?

Q. Yes, or overhead, or whatever goes into it.—A. Well, brokerage is a very small item. Twenty cents a thousand bushels.

Q. How many thousand bushels would pass through your hands in a year?

Mr. Irvine: It would be in the public interest to tell that, would it?

By Mr. Duff:

Q. Approximately how many million bushels of wheat is handled by you in a year through the Winnipeg grain exchange and through the brokers who

do this business for you?—A. Well, there is not a large volume handled by us.

Q. Well, by the brokers then who handle this wheat for you?—A. The brokers are buying and selling through each other, trading around like boys trading jackknives, so that they deal in quite a large volume during so many days.

Q. 100,000,000 bushels?—A. I do not know.

Q. 200,000,000 bushels?—A. The clearing house does not publish any statistics. It would be very wrong for me to make any guess, in the absence of any information given out by the clearing house grain exchange.

Q. Surely, with your knowledge and experience, you have a fair idea of the quantity of wheat that is handled each year on the Winnipeg grain exchange by brokers?—A. You mean the actual wheat that can be exported?

Q. I mean the actual wheat on which somebody pays 25 cents per thousand bushels brokerage?—A. No, I do not know. I know ours does not amount to a large amount.

Q. Can you give us the amount traded on the exchange?—A. Daily?

Q. Well, daily, or yearly, will do.—A. No, I cannot, because the Winnipeg clearing house operations do not give out these figures, and they are the only people who know.

Q. Well certainly, Mr. McFarland, as the selling agent of this wheat producers' association, or the stabilization board, you should know pretty well how much wheat is traded in, from time to time?—A. No, you are giving me credit for some knowledge I do not possess.

Q. Do you have the arranging for the brokers to handle this wheat, or is it done by somebody else?—A. No, we choose our own brokers, whoever we want to put through a transaction when we want it put through.

Q. Do you choose several brokers or just one broker?—A. Oh my, no, we spread it around, and it is irrespective of party too, I may tell you. If you want any confirmation of that, ask the board.

Q. Like yourself, I am not a partisan. And might I suggest to you, sir, turn your deaf ear to the Chairman, because he is a partisan. Mr. McFarland, was there any time that you found it necessary, in order to carry out your stabilization operations, to purchase all the wheat that was offered for sale on the Winnipeg grain exchange?—A. I would not say all of it, but there have been times when we had to purchase very large percentages, I would say, in some particular days.

Q. What percentage would you say, during the year?—A. Well, we had days in the fall of the year 1932 when farmers were delivering and selling freely, when I dare say we purchased what represented 75 per cent of the total hedges.

Q. 75 per cent?—A. I would say so.

Q. How long would you have to hold these?—A. Well, I will tell you the only way you can get rid of this is when the supply and demand become equilibrium throughout the world and the wheat can be exported and sold to people who want to eat it. But you can get rid of it if you like to a speculator to-day, and he won't hold it, and he won't consume it. If you sold all the wheat that we possessed to-morrow morning, put it in the pit and sold it at 10 cents a bushel, that would not get rid of the wheat. It would stay right in the elevators, and it would make the price next fall for every bushel that the farmer may grow next summer.

Q. We would have to do much more, as one member of the house said the other day. Were you obliged, when making those large purchases, to buy wheat that might be offered from outside the country on the Winnipeg grain exchange, not the Chicago exchange, but the Winnipeg exchange?—A. Offered from outside?

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Q. Yes. Do you buy outside lots of wheat on the Winnipeg grain exchange in order to stabilize the price?—A. We never know, and nobody else does, who that broker might represent in selling in the pit. The broker might represent somebody in Chicago or somebody in Liverpool; he may represent sombeody in Montreal or Ottawa, but the other fellow does not know who he is representing. There have been times when gossip said that Chicago would be selling in Winnipeg, for instance, and other times when gossip would say Chicago was buying back what they sold in Winnipeg.

Q. You never try to find out, when you buy wheat, whether it is from the Chicago pit or from any other place?—A. We try to keep in touch, but we do not know definitely, because nobody can know, except the broker himself, and he won't tell.

Q. Did you purchase any Chicago futures since you took charge of the situation?—A. I mentioned that in this statement, absolutely not a bushel.

Q. Would you mind referring to it? I am asking the question now?—A. I will read that over again. "I wish to state most emphatically that we have not speculated in a single bushel of wheat in the operations which I have directed for the Canadian Co-operative Wheat Producers Limited since November, 1930. Moreover we have neither bought, nor sold a single bushel of wheat or any other grain in Chicago."

Q. That does not answer my question, Mr. McFarland. What I am trying to find out is whether you bought on the Winnipeg grain exchange wheat that was held in Chicago, or futures held in Chicago?—A. You do not know where it comes from. I have mentioned that a broker for the Chicago house would know who he was acting for, but he does not presume to tell who his principal is.

Q. He does not tell where the wheat is when he sells it, or where the futures are?—A. Well, ordinarily all wheat traded in the Winnipeg market is for delivery in store at Fort William or Port Arthur.

Q. That does not answer my question. What I am trying to find out is whether you bought on the Winnipeg Grain Exchange wheat which was either held in Chicago or futures held in Chicago?—A. We do not know where it comes from. I have mentioned that the broker for the Chicago House would know who he was acting for, but he does not presume to tell who his principal is.

Q. He does not tell where the wheat is when he wants it or where the futures are?—A. Every bushel of wheat traded in the Winnipeg market is for delivery in store at Fort William or Port Arthur. It cannot be delivered in Chicago or anywhere else; it must be delivered in Fort William or Port Arthur.

Q. In view of the fact that the Canadian people were financing this organization, would it not have been a matter of policy for you, or somebody else to ascertain whether you were buying American wheat?—A. Well, that is an impossibility. If a dealer in Chicago or an operator in Chicago deals in the Winnipeg market he is dealing in something to be delivered in store at Fort William or Port Arthur, and that is Canadian wheat. There is no American wheat dealt in in the Winnipeg Grain Exchange.

Q. No American wheat whatever?—A. No.

Q. So that no Canadian money was used so far as the Chicago Wheat market was concerned?—A. Not a dollar.

Mr. McGibbon: There is a protection on that, you know.

By Mr. Duff:

Q. Could you tell me, Mr. McFarland, what was the lowest price that wheat dropped to since your stabilization operations have been in effect?—A. My recollection is that in September, 1932, cash wheat got down around $38\frac{3}{8}$ cents a bushel.

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Q. Can you tell me, in round figures, how many bushels of wheat you were holding at that time?—A. That gets back to the same old question again.

Q. Of course, but we are not up to the present time. I do not think there is any objection to that. You said the price of 38⅜ cents was when?—A. December, 1932.

Q. That is a year and a half ago?—A. Yes.

Q. Now, surely Mr. Chairman, there is no harm in having an answer to that question.

The CHAIRMAN: Well it is right up to the committee to decide whether they are going to rule it out or not.

Mr. DUFF: I think it is up to the Chairman himself. The committee may support his ruling.

By Mr. Irvine:

Q. Can you say, Mr. McFarland, whether you had less or more throughout this period?—A. I really can't tell you what we had at that particular time, but we made very heavy purchases of wheat from 50 cents down to 44, to 45 cents, and unfortunately we ran out of credit about that time. You gentlemen will probably recollect the very drastic decline that took place from 45 down to 38 and a fraction. There were statements made that many farmers were squeezed out on that break. I took the trouble to investigate it with the different elevator companies, and I found that only two and a half million bushels of wheat were sold from 45 down to 38⅜ cents. I only mention that to show what a very weak market—if you might call it that—existed, and what might have happened if there had been any real large volume of liquidation to take place at a time like that. Supposing we had been forced into liquidation at a time like that, why it would have been chaotic.

By Mr. Duff:

Q. Mr. McFarland, if you had closed out your stabilization operations at that time, which you said was sometime in the fall of 1932, how much in round figures—if you had liquidated—would you have stood to lose.

The CHAIRMAN: That raises the same question.

Mr. DUFF: All right, that is the question I want answered, that is what I want to find out.

By Mr. Irvine:

Q. Could that be actually told, Mr. McFarland? You did not know the price of wheat any more than at any one minute.—A. You would have to take it at the close.

By Mr. Duff:

Q. If you had sold it at the price of 38⅜ cents, which is the price which you gave us, how much would you have lost?—A. I do not know. If the committee want me to get the figures for them I will get them.

Mr. MERCIER: Mr. McFarland is ready to answer the question, Mr. Chairman. He says he will get it if the committee will decide.

The CHAIRMAN: If I have to rule, I will decide that he is not obliged to answer any hypothetical question.

By Mr. Duff:

Q. What was the highest wheat rate since you commenced your stabilization operations, Mr. McFarland?—A. That was in July last year, it went up for a very brief while in the month of July to around 98 cents, my recollection is,

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Q. Were you holding much wheat at that time?—A. We were holding a good deal less wheat when the price got up to 98 cents than we were holding when it was down to $38\frac{3}{8}$ cents.

Q. Thank you very much indeed for that answer.—A. That I think illustrates how much confidence the public had in supporting the market.

Q. Mr. McFarland, when the 1933 crop started to move, did you find it necessary to buy back any of the wheat you sold during July of that year in order to stabilize the price?—A. We had to buy it back before the crop started to move.

Q. Did you buy back very much?—A. We bought back pretty nearly all the speculators took on the bull market.

Q. And that might have been one bushel or five hundred million bushels.—A. It was a fairly large quantity.

Q. Well, that will do. I do not want to embarrass you, or the government, or anybody else.

Hon. Mr. RHODES: Don't bring the government in.

Mr. DUFF: Well, the Minister of Finance then. I am not quite sure, Mr. McFarland, did you tell us when you assumed responsibility for the management of this Pool, or whatever you call it, or selling agency?—A. I think I answered that.

Q. Well, how much wheat did you take control of?—A. I do not know how much wheat at that time. I could find out for you. I can find out from the accounting staff in the office.

Q. Well where is the office?—A. In Winnipeg.

Q. Can you tell me to whom I could apply to get the information?—A. If the committee want the information I will take steps to get it for you.

Q. All right, thank you. Can you tell us what price you allowed wheat to go, that is, the low figure before you felt it was necessary to attempt to stabilize the market?—A. That was 1932-33.

Q. Yes.—A. Well, 50 cents. We attempted to support the market at 50 cents.

Q. And what happened then?—A. Well, it went down as you will remember to 40 cents.

Q. In spite of your stabilization?—A. Yes.

Mr. COOTE: It seems to me there must be a mistake there. I understood Mr. Duff to say last year and I thought he was referring to 1933.

The WITNESS: I asked Mr. Duff if it was 1932-33 and he said it was.

By Mr. Duff:

Q. Mr. McFarland, what does it cost to hold this wheat?—A. You mean the carrying charges?

Q. Yes.—If you hold the actual wheat in a terminal elevator it would cost you a cent a bushel per month, and it would cost you interest on your money which would amount to between 3 and 4 cents per bushel; it runs between 15 and 16 cents altogether. The way we have been carrying it, in the form of futures, it costs us about 10 cents a bushel for twelve months.

Q. What is the longest period you have held wheat?—A. You mean without switching it?

Q. Without selling it or switching it?—A. From October till May.

Q. Well, I thought you told us that you had a large quantity on hand from 1930?—A. That is the futures we hold. We are holding futures.

Q. You did not have any physical wheat at that time?—A. We had physical wheat up to the summer of 1931.

Q. Yes. That would be about how many months that was in storage?—A. Oh, we had a little in the fall of 1931. I just forget what it was.

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Q. And it costs about 10 cents a year for carrying charges?—A. In carrying it the way we carry it, yes.

Q. Now, Mr. McFarland, I am coming to rather an important question. Suppose at the end of your operations when the government says "well done good and faithful servant, enter thou into they rest", who will get the profits?—A. I am going to leave that to the government. I hope it will be so much that there will be a big fight over it.

Q. Yes, but so far you have not brought the government into it; I have been trying to find out the government's position and so far you have told us the government had nothing to do with it, except to guarantee the moneys loaned by the banks.—A. If there are any profits it will be in the name of the Wheat Producers. That is the name under which the account is carried.

Q. Well, the Canadian Wheat Producers are the three wheat Pools of the West, of the three western provinces?—A. They were the selling agency for the three pools.

Q. So that the pools will get it and not the farmers.

The CHAIRMAN: That is a legal question is it not, Mr. Duff?

Mr. DUFF: Well, I have a right to ask a legal question, Mr. Chairman.

The CHAIRMAN: I do not think so. The witness is not an expert lawyer.

By Mr. Duff:

Q. Mr. McFarland, I asked you about the profits?—A. Well, that is a legal question, I presume.

Q. No, that is not a legal question, that is a business question.—A. I know one thing, if there is a loss it will be very difficult to collect it from the farmers.

Q. Well, Mr. McFarland, in other words the tax payers of the Dominion of Canada and not the government—Mr. Rhodes has just said that I should not bring the government in—but the people of Canada would have to pay the loss, if there is any under the guarantee of the Dominion government or the gentleman representing the Dominion government at the moment?—A. Well, that is a matter that I am not prepared to adjudicate.

Q. You have no idea it all, as a business man of long experience, who would have to pay the loss, if any. Do you mind if I answer it?—A. Yes.

Q. Well, the government will pay it. Just one question, Mr. McFarland, in a general way. How is the price of Canadian wheat compared with the price of Argentine and Australian wheat on the Liverpool market, during the last three years say?—A. During the last three years?

Q. Yes.—A. Well, that is a matter of record. You can get that from the Bureau of Statistics; they issue a monthly bulletin showing the prices all the time.

Q. Would you not know, Mr. McFarland?—A. No I do not know. I cannot carry all that in my head.

Q. I know you would not be able to tell me from month to month, or day by day, but surely you would be able to tell me whether on the whole in the last three years there was any different price between Canadian wheat and Argentine and Australian wheat on the Liverpool market?—A. Oh, there is a difference because there is always a difference in quality.

Q. Well, is the Canadian price greater at Liverpool than Argentine or Australian wheat.—A. It is worth more than Argentine wheat.

Q. Much more.—A. At the present time I suppose it is worth 18 or 20 cents more.

Q. What about Australian wheat.—A. It would be around about 12 cents more than Australian wheat probably.

Mr. COOTE: I wonder if Mr. McFarland would make that clear, on whether he is referring to number one Canadian wheat, or not.—A. Well, no, I mean number one Canadian and the best grade of Argentine and Australian.

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By Mr. Duff:

Q. Mr. McFarland, due to the stabilization operations of this organization, do you consider it has had any effect in driving the speculator away from the Winnipeg market.—A. No, I do not think so.

Q. You do not think so.—A. No. The speculator was out, he was broke anyhow.

Q. But suppose he was not broke, would your stabilization proceedings have driven him off the market.—A. I hope he will soon recover his confidence and get back in again and take on the load.

Q. It would not interfere with your operations.—A. No. I would be glad. I could get out then. You know, I do not know why I stay on this job.

Q. Well, I do not know why I am here, but I have been here nineteen years and you have only been on this job three years.—A. There is nothing in it for me but abuse.

Q. Nor me either.—A. If it were a profitable job it would be different.

Q. You say there are no speculators on the Winnipeg market now buying and selling grain outside of your organization.—A. Very few.

Q. Are there any.—A. Oh, yes, there is always the odd one who speculates in a small way.

Q. We were told that this chap had disappeared, that is not correct, is it.—A. Very largely disappeared.

Q. I know, but there are some.—A. Oh, there is the odd one, yes.

Q. Can you tell us how much grain they hold in a year or month.—A. They do not hold any grain; they are in and out of the market, in to-day and out to-morrow, and so on.

Q. They do not carry it around in their pockets or on their backs, but they deal either in physical wheat or in futures.—A. They do not export it, you know.

Q. No, they buy and sell, is that true.—A. They gamble in it.

Q. Thank you very much for that word.—A. Speculation is a better word probably.

Q. Are those outside operators doing the same kind of business that your organization is doing.—A. What outside operators.

Q. Well, those speculators.—A. No, of course they are not.

Q. They do not buy and sell wheat as you do.—A. No, they are in it hoping for a market change to take a profit out of it.

Q. And what are you in it for.—A. To support the price to make a market for the farmers, that is all, so that the farmer will be able to sell his stock. The speculator will sell short and try to depress it. We are not selling wheat short.

Q. Well, you have sold short, have you not; you sold for less than you paid for it? Mr. McFarland, am I right in assuming that your organization took the place of most of the brokers who were on the Winnipeg Grain Exchange.—A. No, no, the brokers are mostly all there yet.

Q. They are all there yet.—A. But the speculator is absent, the public speculator.

Q. The public speculator is absent, or the gambler.—A. Yes.

Q. So that it is not correct that these brokers or traders have entirely disappeared.—A. I did not say that. The people who have speculated and carried hedges in the past, or maintained a long position in the past, have largely disappeared from the picture.

Q. They are not dealing now on the Grain Exchange.—A. No, but the brokers are all there yet.

Q. So that your organization is really taking their place.—A. Taking the place of whom.

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Q. All those people who have disappeared.—A. We are filling the gap to carry the hedges so that the farmer will have a market for his wheat.

By Mr. Donnelly:

Q. I understand Mr. McFarland to say, that when he was appointed in November, 1930, he was appointed to sell the carry-over of the Pools and the selling agency in 1929 and 1930, is that not a fact.—A. I was appointed manager of the Central Selling Agency.

Q. To sell the carry-over that the pools had.—A. To attempt to sell it, yes.

Q. And I understood you to say that you did sell the 1929 carry-over.—A. Yes.

Q. And you sold a portion of the 1930, did you not.—A. Yes.

Q. And you converted some of the 1930 into futures.—A. Converted all the balance into futures.

Q. Now, I understood you also to say that since that time you bought some more futures. Where did you get instructions to buy other futures? Was it from the government or was it from the Pool Central Selling Agency.—A. The government supplied a guarantee to the banks to carry a certain line of options on wheat, a certain position.

Q. Yes, but this is another function you have taken on. Your function was, as I understood it when you were first appointed, to sell that carry-over.—A. It could not be sold.

Q. Then afterwards you took on another function.—A. No, it was the same contract, it could not be sold.

Q. You bought other wheat, you said, other futures, and I want to know where you got your instructions to buy those other futures; was it from the Pool Central Selling Agency, or was it from the government, or who gave you your instructions.—A. I was manager of the company, and the wheat got down to 50 cents, and it was the consensus of opinion—

Q. Mr. McFarland—

The CHAIRMAN: Just let him answer the question.

The WITNESS: It was the consensus of opinion that the market should not be allowed to go under 50 cents a bushel.

By Mr. Donnelly:

Q. Now Mr. McFarland, we have it here on Hansard that you were informed by the government. I will read here from Hansard, just for your information. This is from Hansard, of March 28th, 1933. Mr. Stevens is speaking and he says:

> The government authorized Mr. John I. McFarland, head of the Pool Selling Agency to purchase grain for future deliverv when it was necessary.

That is all I ask you, where you got your instructions. Mr. Stevens, the Minister of Trade and Commerce, says there, in the House, that he instructed Mr. John I. McFarland to buy futures. I will read it again:

> The government authorized Mr. John I. McFarland, the head of the Pool Selling Agency, to purchase grain for future delivery when it was necessary to do so in order to hold the market.

—A. The government furnished a guarantee to the banks to cover a certain line of credit under which I operated as General Manager of the Central Selling Agency, and I used my judgment in regard to when wheat should be bought to support the market.

Q. Did the directors of the Pool authorize you, or tell you, or instruct you to buy those futures.—A. No. The directors of the Pool knew what was being done from day to day by having statements. They did not give me instructions.

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Q. And they told you that you could use your judgment in buying or not. —A. Well, they did not say anything at all about it.

Q. They did not tell you to buy futures or not.—A. It was my job to direct the operations and I directed them.

Q. And nobody gave you instructions to buy futures at all.—A. No.

Q. You just did it yourself.—A. The credit was supplied. It was supposed to be in the National interest that wheat prices should not be allowed to go down to 50 cents.

Q. Well, who told you to hold the market above 50 cents, just yourself or did anybody else tell you.—A. Mr. Bennett knew what was being done from time to time, he had the reports.

Q. Pardon.—A. Mr. Bennett knew what was being done from time to time, he had the reports.

Q. You reported to Mr. Bennett.—A. The banks reported to him the position from time to time.

Q. You did not report to Mr. Bennett, or the government, in any way, shape or form.—A. No.

Q. Is this statement then that Mr. Stevens gave, that the government authorized you to hold the market, correct or not.—A. The guarantee was an authorization. The guarantee stated the authorization.

Q. They just gave you this guarantee and that was all there was to it; there was no authorizing you to do anything at all. Mr. Stevens says here that you were authorized.—A. There was a limit on the quantities. As manager I directed it within those limits.

Q. Who gave you the limit.—A. It was arranged by the orders in council through the banks.

Q. That was your limit.—A. Yes.

Q. And then you were responsible simply to the Pool Selling Agency, and the amount of wheat that you could handle in one way or another was guided entirely by the amount of your credit in the bank.—A. Yes, by the guarantees.

Q. But you received no instructions whatever from the government in any way, shape or form to buy wheat futures or to try to stabilize or strengthen the market.

Mr. Bowman: That is not a proper question.

Mr. Donnelly: Why is it not, when we were told that the government did authorize.

By Mr. Donnelly:

Q. Mr. McFarland, you must have at some time during the year a cut off and take stock to know where you are; how often do you do that.—A. I know every day.

Q. You know it every day.—A. Yes.

Q. You have a cut off practically every day?—A. Yes.

Q. And you issue a statement every day.—A. Issue a statement every day?

Q. Yes, to the banks or to someone; do the banks get your statement.—A. I think every day as well as we do.

Q. Now, you said one other thing just a little while ago, you said that there were no speculators in the market now. Can you tell us why it is that we have speculators in the stock market to-day and none in the grain market.

The Chairman: I do not think that is a fair question.

By Mr. Donnelly:

Q. We have the speculators in our stock market, why is it we have not got them in our grain market.

The Chairman: I do not think you should ask that question.

By Mr. Donnelly:

Q. One other thing I want to deal with. We have a lot of wheat in this country to-day, where is most of it held.—A. The physical wheat.

Q. Yes.—A. Well, there is something like one hundred million bushels in country elevators and the balance in terminals.

Q. A lot of it is in our country elevators.—A. Yes.

Q. Do you not think it would be a good thing to get rid of some of it and reduce our carry over of wheat.—A. We are doing all we can to get rid of it.

Q. You have heard, of course, that the United States has made some trade arrangement with Japan, or with China, rather whereby they are selling a certain amount of their wheat, have they not.—A. Yes, they have given China a long term credit.

Q. And you know, of course, the conditions of our Western farmer and the difficulties for them to get grain to feed their stock.—A. It is largely because I know those conditions that I have stuck to the job I have.

Q. Do you not think it would be good policy to finance some of our Western farmers.

The CHAIRMAN: Don't you think that is quite outside the reference here? That is a matter of public policy which this witness may or may not be qualified to answer.

Mr. DONNELLY: I am only going to suggest, Mr. Chairman, an opportunity for the government to get rid of some of this wheat.

The CHAIRMAN: Well, do it in the House of Commons.

By Mr. Mercier:

Q. How many bushels have you got in your terminals?

The CHAIRMAN: Just a moment, that is along the same line. If the committee want that question answered all well and good.

Mr. MERCIER: Mr. McFarland apparently was willing to answer it.

By Mr. Ernst:

Q. At March 15, 1934, what was the financial result of your operations? I think the country is interested in that.

The CHAIRMAN: I have no objection to the witness answering that question, if the committee so decides, but the committee must take the responsibility.

Mr. ERNST: I think the public are entitled to know that.

The CHAIRMAN: What is the wish of the committee with respect to this question of Mr. Ernst?

Mr. ERNST: That is as far as I want to go, Mr. Chairman.

Mr. VALLANCE: Was not this very question refused to be answered.

The CHAIRMAN: No.

Mr. VALLANCE: If the answers had been given to the previous questions asked the result would be the same.

The CHAIRMAN: Gentlemen, it is now 6 o'clock. We will adjourn until 8 o'clock.

The committee adjourned at 6 o'clock to resume at 8 p.m.

EVENING SITTING

The Committee resumed at 8 p.m.

The CHAIRMAN: Gentlemen, have you any more questions to ask Mr. McFarland?

By Mr. Arthurs:

Q. Mr. McFarland, I would like to ask one or two questions. In your initial statement you said that you were met at Montreal, in the Fall of 1930, and asked to take charge of the Central Selling Agency, that is correct?—A. That is correct.

Q. What was the reason given for that, were they in a bad way, or am I correct in supposing that they were in a bad way?—A. Yes, that was the reason.

Q. You made two conditions, one of which was that you would take no salary, the other being that the Pool would close their selling agencies in Europe?—A. Yes.

Q. I presume that a good deal of their trouble, you thought, was through their having selling agencies in Europe?—A. I would not say that, but I think that at that time it was getting into such a position where it was setting up a resistance against us.

Q. During the following months you were able to clear up the position, so far as the operations were concerned for the year 1929?—A. Yes.

Q. And thereby relieved the three provinces of their liability to a great extent?—A. Yes.

Q. After that what happend, the condition became worse did it not?—A. It did not improve any.

Q. And did you recommend that the banks give further assistance to the selling agency?—A. I recommended in the summer of 1931 that unless there was some support given to the market there was no telling what would happen to the price.

Q. That assistance was given for a time?—A. Yes.

Q. And that was followed by further assistance from the Dominion government in the form of a guarantee by the Dominion government?—A. Yes.

Q. Finally, in 1932, what happened? The market went down, did it not? —A. The market went down.

Q. And you supported it from what figure?—A. From 50 cents.

Q. Why did you quit? The guarantee was not sufficient, I suppose, to support it at that particular time?—A. Yes.

Q. Am I correct in that?—A. That is correct.

Q. The fact was, that the final drop in price was owing to the fact that you could no longer support the market?—A. That is right.

Q. Now, Mr. McFarland, I am going to ask this question which you may answer in your own way, but which I think is a fair one: What is your personal opinion as to what would have occurred had the Dominion government not supported the banks in this situation.

Mr. VALLANCE: I think that is a hypothetical question. It was ruled out this afternoon. I do not think it is fair.

The CHAIRMAN: It is not hypothetical in the ordinary legal sense.

The WITNESS: Could I answer the question in this way, that in that summer we were visited by a representative of one of these very big co-operative milling concerns of the United Kingdom. Wheat was then selling around about 53 cents in Fort William. He said "Why not arrange to sell a big chunk of this wheat to us?" I said "At what price would you buy a large quantity?" "Well,"

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he said "I think we would be interested in it at 40 cents a bushel Fort William." Now, that will give you an idea of what buyers abroad would start in at buying a large block of wheat, and that would only be for about five million bushels.

By Mr. Arthurs:

Q. What would be the result of a sale of that kind? It would lower the market and the market would have to drop?—A. It would lower the market, and the next fellow would want his for less.

Q. There is one other point regarding speculation in wheat. Is it not true that in the boom times, when wheat had a fair market price, many of our farmers sold their wheat, put their wheat in the elevator, got the cash and became longs on wheat, that is to say, they bought futures?—A. I cannot answer that. You mean recently.

Q. No, during the boom times when wheat was at a fair price?—A. Prior to 1930.

Q. Yes.—A. It is my opinion that the farmers in western Canada, the merchants both east and west to a great extent, and the professional men, were the people who carried the hedges in the past, prior to 1930.

By Mr. Bothwell:

Q. Mr. McFarland, according to the monthly review of the wheat situation, March 21, 1934, the sale of Canadian wheat has fallen off considerably in the British market in the last two months whereas wheat from Russia and the Argentine has been finding a ready market. Can you give the committee any information as to why that situation prevails.—A. The shipments from Canada are ahead of the quota at the present time; we are a little ahead of the quota. The midwinter shipments from Canada are always smaller than they are in the Fall, or Spring, months. The shipments from the Argentine are large during this season, and also from Australia. They put their stuff afloat, shipping c.i.f.; a large part of it is not sold until it arrives, and when it arrives it has to be forced on the market. It may interest you to know that just a few days ago a cable from Liverpool reported that Argentine wheat was selling in the Liverpool market at 54 cents a bushel and Argentine corn at 60 cents a bushel. The reason there is more wheat than usual being shipped from the Argentine just now is because they expected to load a lot of boats with corn but the corn is not available so they have been loading wheat in excess of what they could comfortably dispose of and it is being sacrificed on the other side of the water.

By Mr. Bowman:

Q. You said Argentine wheat was selling at 54 cents. What was Canadian wheat selling at at that time.—A. It would be 78 cents, somewhere around there. That is for number one.

By Mr. Bothwell:

Q. I just want to read a line or two from the monthly review of the wheat situation, issued by the Department of Trade & Commerce, dated March 21, 1934:

> It will be noted that total imports of wheat into the United Kingdom amounted to 113,385,888 bushels during the August-February period in 1933-34 as compared with 111,802,667 bushels during the same months last year. The table further shows that imports from the Argentine increased about 12 million bushels this year as compared with last. Imports from Canada decreased about 25 million bushels in the August-February period in 1933-34 as compared with the same months last year. Imports from Russia increased about 11 million bushels as compared with the same period last year.

A. That is into the United Kingdom.

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Q. Into the United Kingdom, yes. You say that our exports are ahead of the quota. According to this report I think that is hardly correct. It says Canada's exports are lagging behind the 200 million bushels quota by approximately 6 per cent.—A. That is on the last couple of weeks' shipments.

Q. I am just taking the government report of March 21st. No, that is for the five month period August to February.—A. For five months up to August.

Q. Let me see. Yes, August to February, 1933-34, as compared with August to February, 1932-33.—A. How many weeks do they give there.

Q. Well, the report is this:

> The following table shows imports of wheat into the United Kingdom during the months of August to February inclusive, 1932-33 and 1933-34.

A. That is the United Kingdom only.

Q. Yes. My question was based on that report as to why our exports to Britain have fallen off this year as compared with last year, that is, the Argentine has always been in the same position, unless they are just dumping their wheat.—A. Well, they are at the present time.

Q. But both Russia and the Argentine have to pay a 6 cent duty in the British market and still they are selling the wheat in preference to Canadian wheat.—A. That is in the United Kingdom market.

Q. Yes, in the United Kingdom market.—A. Well, you see more of our wheat is going to the Continent.

Q. Now, are we shipping wheat to the Continent.—A. Well, it is going somewhere.

Q. This statement which I have just read is dealing with the world.—A. It is going out at the rate of 4 million bushels a week so it must be going somewhere. If it is not going to the United Kingdom it is going to the Continent.

Q. Let me read this statement to you and see if you endorse it. This may be wrong entirely:

> The world movement of wheat to date suggest that the estimated import requirements of 560 million bushels will not be reached and that the deficit may be as high as 35 million bushels or over 6 per cent, Canada's exports are running behind the 200 million quota by approximately the same percentage.

That is dealing with world export.—A. I will agree with this, that there are some authorities who think that the 560 million bushel quota may not be reached as a total for world shipments this year, there are some authorities who hold that opinion. There are those again who say that it will be. I do not know, you can guess that as well as I can.

Q. I have been wondering, since reading this report, if the situation in Canada is such that we are holding our wheat so high above the world's market price of wheat that that wheat is damming back on us while Russia and the Argentina paying a 6 cent duty are delivering their wheat in the U. K. market. I am just asking if that is the situation.—A. The wheat is passing out for export from Canada at an average of 4 million bushels a week. Now then, in 52 weeks the exports would be over 200 million bushels at that rate; it has averaged 4 million bushels per week up till now. I do not know what it is in the last two weeks.

Q. Why is it it is so far behind last year?—A. Every year is a different year in the grain business, it varies; there is nothing permanently the same; different positions arise in different countries, and so on.

Q. There is no further light you can throw on the situation.—A. Nothing further, except that we are fully up to our quota.

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Q. So that this statement that we are falling behind the quota is wrong.—A. Well, it is up to the last two weeks. I do not know what it is in the last week.

Q. This is issued by the Department of Trade and Commerce.—A. Up to a couple of weeks ago we were ahead of our percentage on the quota for the number of weeks that had elapsed.

Q. Well, I suppose you do not know at all the figures as to the amount of our exports.—A. No, I have not got that.

Q. Since the beginning of this crop year.—A. About 130 odd million bushels, that is all I know.

By Mr. Power:

Q. Mr. McFarland, in order to make things clear in my own mind I may have to ask you to repeat some of the evidence that you gave this afternoon, but I will avoid doing so as much as I can. When you took over, in 1930, the managership of the Cooperative Wheat Producers Limited, you took over for the manifest purpose of marketing the wheat grown in the year 1930, did you not.—A. 1929. There was a small balance of 1928 and the balance from 1929, and the 1930 crop.

Q. Were you aware that the only wheat transactions which were authorized in that order in council were in connection with wheat grown in the year 1930, as appears by order in council 2238.—A. Order in council P.C. 2238 did not concern the crops of 1928 and 1929 at all, because they were guaranteed by the Provincial governments.

Q. That is just the point I want to make, so that in so far as the relationship between the chartered banks and their guarantee by the Federal government is concerned we have nothing to do with the wheat grown in 1928 and 1929.—A. Nothing whatsoever.

Q. Nor, as I understood your answer to the question this afternoon, have we anything, or have you anything, to do with the marketing of the crop grown in 1931, 1932 or 1933.—A. Except in the matter of the support of price.

Q. Except in the matter of support of price.—A. Yes.

Q. Your job when you took over was to dispose of the crop grown in the year 1930, and you proceeded to do so.—A. Yes.

Q. And at that time when you took over, or at any time prior to February, 1931, were you aware of any understanding made on behalf of the government to guarantee the repayment to the chartered banks of the amounts advanced by them to the Canadian Cooperative Wheat Pools.—A. I do not just get that.

Q. At the time you took over this position of manager, or at any time prior to the 15th February, 1931, were you made aware of an undertaking on behalf of the government of Canada, the Dominion of Canada, whereby this government guaranteed to the chartered banks the amounts of money advanced by them to the Canadian Cooperative Wheat Producers Limited.—A. On the 1930 crop.

Q. I am only speaking of the 1930 crop.—A. I was aware that the banks had assurances, or guarantees, to that effect.

Q. You were aware that they had guarantees from the government.—A. Protecting them against loss.

Q. Can you tell me about what time you were made aware of that, at what period.—A. Well, it was in the New Year.

Q. Would it be an indiscreet question to ask you if that was one of the express, or implied, conditions under which you took over the sale of this wheat.—A. It had nothing to do with it.

Q. It had nothing to do with it.—A. No.

Q. Now, in this order in council to which I again refer, P.C. 2238, reference is made to an agreement between the banks and the Wheat Producers in connec-

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tion with the marketing of the wheat. Have you a copy of that agreement, or could you write and get a copy of that agreement.—A. What agreement is that.

Q. Reference is made in P.C. 2238 to an agreement between the banks and the Wheat Producers in connection with and incidental to the marketing of wheat and other grains. Have you a copy of that agreement, or perhaps we could get it from the banks.

The CHAIRMAN: What is the reference.

Mr. POWER: Perhaps I had better read it. It says:

> The Governor in Council guarantees repayment to the chartered banks hereinafter mentioned . . of the amounts of money advanced by them to the Canadian Cooperative Wheat Producers Limited hereinafter called " Wheat Producers," and interest thereon until repayment as agreed between the said banks and wheat producers...

Was there an agreement? I assume there was. I take it that it is between the banks and the wheat producers.

The CHAIRMAN: "Wheat Producers" is the name of the company.

Mr. POWER: Well, it does not matter. Was there some kind of an agreement in existence between the banks and the company which Mr. McFarland represented. I do not care what date it was.

The WITNESS: That covered cash grain at that time. As the grain was sold the profits would be turned over.

By Mr. Power:

Q. No, but is there such an agreement in existence in writing.—A. I do not think so.

Q. Well, do you mean to say that the banks undertook to advance very large sums of money.—A. The grain was hypothecated to the banks against the loans. They would not require any agreement on that when the grain is hypothecated to the banks.

Q. Let me put it another way: Did " Wheat Producers " have a line of credit with the banks.—A. Yes.

Q. Well, is that laid down in writing anywhere; was there a letter from the banks to the wheat producers telling them to what extent they should use their line of credit.—A. I cannot answer that, I do not know the amount. I have not got a recollection of the amount.

Q. You think there must have been something in writing.—A. There was some limit on the amount of credit, of course.

Q. I was coming to that, but first I would like to know, or to have produced here if it is at all possible either from you or from the banks something in writing with respect to the arrangement between the wheat pools and the bank or the wheat producers and the bank, if such exists.—A. I do not know of any form of written agreement any more than that all the grain was hypothecated.

Mr. POWER: Would it be fair if I were to ask one of the bankers? Mr. Logan, do you know of any such agreement between the banks and the wheat producers.

Mr. LOGAN: I have no knowledge of any written agreement.

Mr. POWER: May I ask if Wheat Producers, Limited, had a letter from you, or any other general manager of a bank, or any employee, giving them an undertaking that they would be given a line of credit up to a certain amount.

Mr. LOGAN: I do not think we would furnish them with a letter. It might have been a verbal understanding that we would loan them up to a certain amount, subject to change, from time to time, depending on changing conditions.

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Mr. POWER: I suppose that you had such an agreement, or such an understanding, with them for some years prior to 1930? After all, this was an important industry and you must have had somewhere some understanding as to the line of credit which they would have.—A. Credit arrangements are not usually done by letters; a verbal arrangement which can be changed subject to changes which occur from time to time—

By Mr. Power:

Q. Have you any recollection, Mr. McFarland, as to the amount of the limit of your line of credit with these seven banks, or with any one of them, if I have to take them individually?—A. In 1930.

Q. In 1930?—A. No, I have not. I have not got a recollection of the amount.

Q. Was there such a limit?—A. There must have been a limit; there is always a limit.

Q. Now, who could tell us what that limit was?—A. Well, the banks would have it in their records. These gentlemen might not have it with them, but they will have it in their records.

Mr. POWER: May I ask Mr. Logan if they have it in their records?

The CHAIRMAN: He will be called.

Mr. POWER: I am in the hands of the committee.

The CHAIRMAN: I think that is the regular way of doing it.

By Mr. Power:

Q. So that in so far as you are concerned, Mr. McFarland, you cannot tell us here now whether or not you had an absolutely unlimited mandate to go into the market and spend all the money you wanted to support the market? Pardon me, I did not want to say that yet, to dispose of your wheat.—A. Did I say that or anything like that.

Q. No, but I am asking you that.—A. Absolutely not; it was always limited.

Q. It was always limited?—A. Yes.

Q. All throughout this transaction?—A. All throughout.

Q. Even when you were stabilizing the market?—A. Yes.

Q. But can you tell me at any time what that limit was, in money, or in bushels of wheat, or anything, so that I can get some idea of what the extent of your mandate was?—A. No, I cannot give you those figures.

Q. You cannot?—A. No.

Q. But someone, surely, can.

Mr. DODDS: We can tell you, Mr. Power.

The CHAIRMAN: You will get it later on, Mr. Power.

Mr. POWER: But in so far as Mr. McFarland is concerned, he was operating in the wheat market, first of all, for the purpose of selling this wheat and, secondly, for the purpose of stabilizing the market.

The CHAIRMAN: No, he never said that; he said supporting the market.

Mr. POWER: Operating in the market. I think perhaps I am entitled to use the term which I wish.

The CHAIRMAN: You cannot put words in his mouth.

Mr. POWER: I say, in so far as Mr. McFarland is concerned, he was operating in this market both to stabilize it and to sell his wheat, and he does not at the moment recollect what his limit of credit was. That is all I want to get on the record; that is a fair statement.

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The WITNESS: If I had been advised before I left home I could have given it to you.

By Mr. Power:

Q. But at the moment, now that you are a witness, you cannot tell us that?—A. No, I cannot tell you that.

Q. Now, I understood you to say in answer to Mr. Arthurs a short time ago—I think perhaps you misunderstood his question—that you recommended in 1931 to someone—you did not say to whom, but I assume it was to your employers, or principals, the wheat producers—that stabilizing operations should take place?—A. Supporting operations.

Q. Supporting operations?—A. Might be necessary.

Q. You also stated if that was followed by assistance from the Dominion government—am I quoting you correctly Mr. Arthurs—by assistance by way of guarantee by the Dominion government; you said that did you not?—A. Yes.

Q. Is it not a fact that assistance by the Dominion government was given long before the summer of 1931, was given in January of 1931?—A. To an extent equivalent to the requirements of the time, yes.

Q. No, but assistance had been given away back in January, 1931, or an intimation that assistance would be given?—A. Yes.

Q. Is that a fair statement?—A. That is a fair statement.

Q. And then I gathered from your answer to Mr. Arthurs that you recommended that still further assistance be given in 1931, is that right?—A. It might be necessary.

Q. In the summer of 1931?—A. In the fall of 1931.

Q. In the fall of 1931 you found that assistance by way of guarantee hitherto given by the government would not be sufficient?—A. Might not be sufficient.

Q. And you suggested to someone that you should get further assistance?—A. It might be necessary.

Q. Now, to whom did you suggest that?—A. I suggested that to the directors of the Cooperative, to the government, and to the banks.

Q. To the government?—A. Yes.

Q. And to the banks?—A. Yes.

Q. Now, up to the time you made this suggestion had there been some kind of a limit to the assistance by way of guarantee which the government had given?—A. Absolutely; there always had been a limit.

Q. Can you tell what that limit was?—A. I cannot tell you from memory. From time to time it changed, as time progressed.

Q. But you knew, or you felt, that it might not be sufficient?—A. I knew what the limits were all the time.

Q. And you felt, in the summer of 1931, that it might not be sufficient?—A. That it might not be sufficient when the new crop started to move.

Q. Well, may I take it that that was the time at which you began what I call your stabilizing supporting operations, that up to that time your main interest had been to sell off the 1930 crop?—A. No. So called stabilizing in the first year was worked out through a policy of selling cash wheat from time to time as the market would take it without breaking it unduly. There were no purchases during the first year's operations.

Q. That is what I want to come to.—A. The supporting operations were carried out by a process of sales from day to day, either withholding or selling as the market might change from time to time. If we had gone in and thrown our stuff on the market the market would have smashed.

Q. You were selling it little by little?—A. We had all this in mind. If we had gone in and thrown our cash wheat into the market we would have broken

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the price, and we would have frustrated the farmer in getting a reasonable price for his product.

Q. So your policy, up to a certain time, was to allow it to go out by driblets, so to speak?—A. I would not say driblets, but from time to time as it would take it, as the demand warranted, having regard to the fact that we only owned part of the wheat; the rest was owned by the trade and by the farmers themselves.

Q. Your function was purely one of liquidation up to a certain time?—A. Yes.

Q. Well then, when did you begin to purchase in order to support the market, about that date?—A. My recollection is about the summer of 1932, on or about the month of June.

Q. But apparently you indicated that this would be necessary sometime in the summer of 1931, when you suggested further guarantees?—A. No, sometime in the winter of 1931, I think it would be. It did not become necessary until the next year in June when forces from outside broke the market. We supported it.

By Mr. Geary:

Q. You say that you thought it might become necessary in the winter not that you thought in the winter it might be necessary?—A. Yes, I thought it might become necessary but it did not. Forces from the outside came into the market and we supported the market. We sold out what we had to sell out to support the market before the new crop started to move in 1932.

By Mr. Power:

Q. I do not quite understand what you mean when you say "we sold out to support the market"?—A. We bought it to support the market, then we resold that before the new crop commenced to move in the Fall of 1932. Supporting operations really did not become necessary to any extent whatsoever until the big crop of 1932 hit the market.

Q. And all those operations—selling, liquidating and buying wheat—were considered necessary in order to sell the quantity of wheat which was handed over to you, or at least which was put in your care for the purpose of sale in 1930?—A. It was very necessary to do it.

Q. And in your opinion it is still necessary?—A. Absolutely.

Q. Now, would it be an unfair question to ask you, how much longer you anticipate that this arrangement must go on before you can get rid of the quantity of wheat which was handed to you in 1930?—A. Well, I am not a seer or a prophet. You must always have in mind the fact that the farmer has his wheat to sell.

Q. I have always in mind this, that your job as I understood it from you, was to liquidate or get rid of the wheat grown in 1930 at the best possible advantage for the producer?—A. That was for the first year.

Q. That is a fair statement?—A. And we did liquidate a lot of that crop.

Q. No, but that is a fair statement of the responsibility which you undertook, is it not?—A. Yes, and we did liquidate a lot of it; but there was some left over, as there had been for five years before.

Q. I do not want to argue at cross purposes with you, Mr. McFarland. You started in this business to sell the wheat grown in 1930 and you have been trying to do that so that, to the best of your ability, you will protect the interest of the producer; you are still trying to do that to-day, you are still on the original job of getting rid of the 1930 wheat; is that a fair statement?—A. Partially so.

Q. Well, partially— —A. There has been other wheat since then, though.

Q. Oh, yes, but it is always as a consequence having tried to get a reasonable price for the 1930 crop?—A. That is where it started, but don't forget this, back in 1928 and 1929 the carry over started.

[Mr. John I. McFarland]

Q. As far as this committee is concerned, I am dealing only with the order in council?—A. We could not sell all the wheat we had unless all the wheat in Canada was sold.

Q. But we have been three years trying to get rid of the 1930 crop, is that correct?

Mr. BOWMAN: The witness has not said that.

By Mr. Power:

Q. I am asking that?—A. Part of it, yes.

Q. Now, it is not possible for you to give us any idea of how many more years we will be trying to get that part of it which remains to us?—A. That very much depends upon the future, but the first step has been taken in the wheat agreement with different countries to reduce acreage and production.

Q. The first step has been taken to reduce acreage and production; that is to say, if no wheat was produced there would be a shortage and a famine throughout the world and I have no doubt you would sell your wheat for a high price?—A. Well, if there is not overproduction.

Q. If there is not over-production?—A. Of course, we are not expecting anything in the way of a very high price.

Q. Well now, I am afraid perhaps I will have to run foul of some of my colleagues in the committee. I should like to know from Mr. McFarland—I should like to get clear in my own mind—the quantity of wheat Mr. McFarland took over and how much he has now, how much of it is physical wheat and how much of it is hedges; can I get that?—A. I think I answered once before that there is none of it physical wheat. It is all futures or options.

Q. It has been suggested to me that I ask you what has become of the 1930 physical wheat. I suppose it has been eaten in Europe by this time, has it?—A. It has been replaced, from time to time, by other wheat.

Q. It has been replaced by other wheat by the purchase of futures?—A. Yes, and the growing of new crops.

Q. Now, can you give me the figures showing what quantity of wheat you took over in 1930?—A. In 1930.

Q. Yes.—A. No, I think I said here this afternoon that I did not have those figures.

Q. Somebody has.—A. Not here. If they had told me you wanted them I could have brought them with me.

Q. Who has them?—A. I could get them in Winnipeg.

Q. We can have them here by Tuesday, Mr. Chairman.

The CHAIRMAN: I don't know. That is up to the committee entirely. You must take the responsibility.

Mr. POWER: Well then, I put it this way, we might just as well get that settled once and for all. I do not think we can get very much further in our inquiry, at least in so far as I am concerned, if I do not know what the quantity of wheat was owned or held by the Cooperative Wheat Producers Limited, in November, 1930, what quantity he has now, how much he has in physical wheat and how much he has had for hedges during the period in which he was managing this concern, up to date.

The CHAIRMAN: In any event, the witness cannot give you the information to-night, even if he had the sanction of the committee.

Mr. POWER: Well then, Mr. Chairman, in order to ascertain, might I ask if we could get that information from the banks; could Mr. McFarland say whether we could get that information from the banks.

The WITNESS: I do not know whether the banks have that or not.

Mr. POWER: Might I ask you, Mr. Logan, if I may address a question to the banks. Mr. Logan, would you have anything like that information.

The CHAIRMAN: That does not mean, Mr. Logan, that you are to divulge the information.

Mr. LOGAN: We have the information.

Mr. POWER: You have the information showing the quantity of wheat held by Cooperative Wheat Producers Limited at November 30, 1930.

Mr. BOTHWELL: If I might interrupt, for a moment, we have been hedging around this question of whether we are going to disclose the quantity of wheat and just where Mr. McFarland stands in the sale of futures, or in the amount of advances. I would suggest we do not know but what it might be beneficial to the people of Canada and to this committee to know exactly what the situation is, and apparently nobody knows except Mr. McFarland himself. I would suggest, Mr. Chairman, that you yourself appoint a sub-committee, in order to get the figures and if it can be disclosed to this committee, without doing any harm, then disclose it.

The CHAIRMAN: Well, that suggestion is worthy of consideration. It is a fair suggestion and we will take it into consideration, but unless the committee definitely states, to-night, that the information shall be divulged to the public I am not going to take the responsibility of saying that it be given out. I do not know enough about the situation to know whether it would do injury to this country or not.

Mr. BOTHWELL: I come from the prairies and I do not want to see any evidence brought out here, or any information brought out that is going to make the situation of the western farmers any worse. God knows it is bad enough now, and I am sure that every member of this committee feels just exactly the same way, and it seems to me that the difficulty could be got over in that way.

Mr. POWER: Mr. Chairman, I am sorry but I think I am entitled to the information from whoever has it, and I am going to insist until such time as I am told by you, Mr. Chairman, or by my colleagues that I cannot have it.

The CHAIRMAN: Well, it will have to be your colleagues; they have got to take full responsibility.

Mr. POWER: Now, what are we going to do about it.

The CHAIRMAN: I suggest that we go on. The information is not available from this witness, and I suggest that we go on and finish with Mr. McFarland because he must leave to-morrow. The information we do know is available from the banks, if it is the will of the committee.

Mr. VALLANCE: Mr. Chairman, everyone knows where I stand. I support the member for Swift Current, if this information will do the wheat industry and the primary producer particuarly any harm. I have nothing against it being divulged, if it is not going to do any harm, but if there is the slightest suggestion that it might do him any harm, then I think it had better not be given.

Mr. POWER: Well, again I say what are we going to do about it.

The CHAIRMAN: Mr. Vallance, as a fair statement, I am going to ask you a question. Who is to be the judge.

Mr. VALLANCE: This committee.

Mr. BOWMAN: How about asking Mr. McFarland whether divulging this information would be of benefit or not.

Hon. Mr. LAPOINTE: Mr. Chairman, may I ask for the purpose of information: There might be some question of whether it is advisable to discuss the quantity of wheat owned at the present time or in the possession of the Co-

operative Wheat Producers Limited, but in what way could it be injurious to know what quantity there was in 1930 when Mr. McFarland says that all this wheat has been disposed of and replaced by futures?

Mr. COOTE: Mr. Chairman, I think a good many of the members of this committee find themselves in a bit of difficulty. We do not know just what the effect of giving this information to the world at large may be upon the wheat market, and speaking for myself—and I take it for granted I can speak for some of my friends near me, if not they will have to speak for themselves—if this matter must be decided by a vote of the committe now I would decide it for myself in this way: If the answer to the question is not going to do any good, so far as the wheat market or anything else is concerned, and there is a chance that it may detrimentally affect the wheat market or the price of wheat, my attitude would be that the question should not be answered. We are in difficulty in that respect, because we really do not know just what the effect would be.

Mr. VALLANCE: Mr. Chairman, I think the world at large knows how much wheat is available in Canada to-day. Now, they are exercised to-day, I think, about who holds that wheat. If the government, through Mr. McFarland's operations, is holding a larger quantity of wheat than might well be in the interest of the trade at large to know, then I am all against that information being put out. The world at large knows that Canada has 200 million bushels, but as to whether it would be advisable to know who holds that wheat is a question I cannot answer in my mind.

Mr. ARTHURS: Would it not be well to ask Mr. McFarland's opinion as to whether this would, or would not, be advisable from his viewpoint as an expert; he knows whether the disclosure of the quantity would be to the detriment of the trade or not.

The WITNESS: I do not like to take the responsibility of giving it out. You cannot tell what harm it might do.

By Mr. Arthurs:

Q. Would it do any good?—A. It would do no good, that is sure.

Mr. POWER: It would do no good to the trade, but there are ten millions of people in Canada who care. Many of us pay taxes, and after all, with all the sympathy in the world for people in the wheat trade we have a duty to perform here. We must see to what extent the public is committed to this wheat transaction. That is the way I look at it, with all sincerity. I would regret if it hurt anybody, but people have been hurt by other transactions of government before.

The CHAIRMAN: Let us settle this question. All those in favour of divulging this information to the public will stand up and be counted " like men."

(The Chairman announced the vote as follows:—
In favour of disclosure, 9; against, 33.)

Hon. Mr. LAPOINTE: I do not like to criticize the chair, but is it a new mode of putting a question to us, to those who vote one way to stand up " like men."

The CHAIRMAN: You can take any opinion you like out of it, Mr. Lapointe, as far as I am concerned.

Mr. POWER: Now, I am not trying to get around the matter, or to ask the question in an indirect way, but would it be possible to obtain from Mr. McFarland this information: Has he actually—either in phyical wheat or in futures—more wheat to-day than he had at the time he took over.

The CHAIRMAN: Well, he has told you he has no physical wheat.

[Mr. John I. McFarland]

Mr. POWER: Well, has he actually more wheat to-day than he had at the time he took over.

The WITNESS: There is a lot more wheat in Canada now than then; there is a lot more wheat in the world too.

Mr. POWER: I doubt whether the people of Canada wish to guarantee the sale of all the wheat all over. I understood from this afternoon's discussion—and perhaps it will be the subject of confirmation by the committee, or an interpretation of the wish of the committee—can we find out in money, without inquiring into the quantity of wheat, what was the position of the Cooperative Wheat Producers Limited and the banks and the government guarantee at any time during the course of these transactions from November 30th to date.

The CHAIRMAN: If that question has not been decided by this committee already, it will be decided by the committee when we meet again.

Mr. POWER: Well I was just asking for your interpretation of it.

The CHAIRMAN: I do not understand that we had decided to divulge that yet.

Mr. POWER: You have not decided whether or not. Then I will put the question.

By Mr. Power:

Q. Mr. McFarland, can you tell me what the position was, in money, at the end of the crop year of 1931, six months afterwards, that is in January of 1932; six months after that at the end of the crop year July of 1932; and in January, 1933, and July of 1933; and January of 1934.

The CHAIRMAN: Mr. Power, in effect is not that the same question that you put in Mr. Duff's mouth.

Mr. POWER: It has been stated here that by a system of computation one could perhaps arrive at the question I am asking. If I cannot ask the question I will be satisfied.

The CHAIRMAN: There is no reason why you should not ask the question. The question is the answer to it, is not that the same thing.

Mr. BOWMAN: That same question was asked before and I stated that by a process of calculation you could get the information upon which we have just voted.

By Mr. Power:

Q. I take it from Mr. Bowman that you could get this by a method of computation.

The WITNESS: It is possible.

Mr. POWER: So that I take it my colleagues in the committee still bar me from requiring an answer to that question, Mr. Chairman.

Mr. CHAIRMAN: It is up to the committee.

Mr. POWER: Well then, I will put the question.

Mr. BAKER: I move the question be not answered.

Mr. POWER: I am ready for the question on the question. I think surely we ought to know to what extent, in money, we are involved, or have been involved at any time since this thing started. I submit that to the committee, otherwise I do not know why we took the trouble to bring Mr. McFarland here, or why we took the trouble to go into the investigation at all.

The CHAIRMAN: Mr. Power, are you pressing the question.

Mr. POWER: Yes. The whole point of this investigation is bound up in this question, as far as I am concerned.

[Mr. John I. McFarland]

The CHAIRMAN: I would not think so from the terms of reference.

Mr. VALLANCE: It has been suggested by Major Power that this be given for every six months. I do not want it given up to the 15th of March without knowing all the other six month periods, because I want to know where it has stood at all times. If it is given for six month periods the picture will be different according to each answer given by Mr. McFarland. That is the only way that I will agree to it.

The CHAIRMAN: What you mean is you do not want to know it at all.

Mr. POWER: That is satisfactory to me.

The CHAIRMAN: Gentlemen, the question is, shall we have the information asked for in Mr. Power's latest question divulged to the public or not. All those in favour will please stand up.

Hon. Mr. RALSTON: Do I understand the question to be, whether we shall have divulged to this committee, and, of course, placed on the public records the facts as to the standing of the amount of the guarantee involving the producers and the banks for every six month period, valuing the wheat as at market price as of those particular dates, is that the question.

The CHAIRMAN: That is my understanding of it.

Hon. Mr. RALSTON: Well now, Mr. Chairman, I do submit to the committee that there cannot be—I do not think that there ought to be—any question about that. Should not we know to what extent Canada is and has been committed? It does not give away the quantity of wheat; it simply represents the cash position and the amount of liability which exists under those very comprehensive guarantees as of these different dates.

Mr. ERNST: What does it matter what we have been committed to. It is what we are committed to.

The CHAIRMAN: The position is this, as I understand it, if the cash position is divulged then the quantities are easily calculated.

Mr. VALLANCE: It can be done. If Mr. McFarland gives me the position at a given period I can pretty well tell him what the quantity is.

The CHAIRMAN: Those in favour of giving this cash position at the different periods will please stand.

(The Chairman announced the vote as follows: In favour of disclosure of cash position, 10; contra disclosure, 26.)

By Mr. Spencer:

Q. I would like to ask Mr. McFarland a question. In reply to a question by one of the members as to the position in which Mr. McFarland found the Cooperative Wheat Producers in when he took over the management I think he said he found it in a bad way. I would like to ask if that condition was not brought about through the extremely very heavy drop in world prices of wheat.—A. Oh yes, entirely by the heavy drop.

Q. And that all grain interests in Canada found themselves in the same position on account of the drop in the market.—A. Some of them, not all of them.

Q. If the Pool was in a bad way it would affect all other agencies handling grain.—A. No, because many of them were hedged, you see, but the balance were unhedged to a greater extent.

Q. I mean to say, it would look from the records as if there might have been bad management, and I want to find out whether it was on account of the very heavy drop in world prices at that particular time.—A. It was the heavy drop in world prices that reduced the margins to the banks to such a dangerous level that unless something had been done they would probably have thrown the wheat on the market and caused a debacle throughout the whole Dominion.

[Mr. John I. McFarland]

Q. The banks holding the wheat as security naturally would not want to carry the loans if the wheat was dropping rapidly, and if assistance was not given to the wheat producers they would probably force sale in their own defence. I take that as granted. I take it the tendency would have been, if the government had not come to the assistance of the banks with a guarantee, that the banks in self defence would have forced the wheat on to the market.—A. That was the danger at the time.

Q. I understand you said that one of the conditions on which you accepted the managership of the Cooperative Wheat Producers Limited was that the agencies in Europe should be closed.—A. Yes.

Q. And may I ask if you feel—you need not answer this if you do not want to—that with past experience that was a good thing.—A. I think they were better closed. I think it removed a certain amount of ill feeling over there that had existed, or had grown up, against the system of a large organization going over there and attempting to sell their wheat direct to the millers and cutting out all the middlemen.

Q. Well, may I ask if it is not a fact that very large organizations both in Europe and Great Britain control the purchase of wheat.—A. Well, recent years have developed the fact that big milling companies pretty well control the purchase of wheat in the United Kingdom, just a few milling companies.

Q. Then, as sales are being carried on to-day, it is only being sold possibly through a few agencies.—A. Yes, there are only a few millers and there are not so many agencies over there as there used to be.

Q. Well, the next point is, that you did what you could in supporting operations which was not only of benefit to the Cooperative Wheat Producers but I take it it was also of equal benefit to all grain interests in Canada.—A. It was of benefit to all of the farmers.

Mr. Power: I want, Mr. Chairman, to declare in view of the fact that my colleagues in the committee will not permit me to go into the questions which I wished to study in making my motion, I have no further questions to ask Mr. McFarland, and, in consultation with those of my colleagues who feel the same way as I do, they have advised me not to ask him any further questions because it woud be useless and only wasting the time of the committee.

By Mr. Lawson:

Q. Mr. McFarland, am I correct in saying that when you speak of supporting the market in wheat you mean keeping up prices?—A. Yes, maintaining a level.

Q. Maintaining a level of prices?—A. Not a definite hard and fast level but a level with some elasticity in it.

Q. Is there any way of supporting a market of which you know other than the orderly regulation of selling what you may have to sell, or alternatively being a buyer of future contracts?—A. There is no other way. There must be buyers, or the price is going to drop.

Q. Then have you on behalf of the Cooperative Wheat Producers Limited been a buyer of future contracts for the purpose of supporting the wheat market?—A. Yes.

Q. Would the price of wheat on occasions have been lower than it was if you had not been purchasing wheat futures?—A. That is theoretical, but there cannot be any doubt about it; I am not the only one who has made estimates, others who are well positioned to know have made estimates ranging at a considerable number of cents per bushel.

Q. I may take it then that that is your conclusion as an expert?—A. Well, I would not say that I am an expert.

Q. Well, from your knowledge of dealing in wheat?—A. As a young fellow trying to get along, why, I think that is correct.

[Mr. John I. McFarland]

Q. As you have been so successful, Mr. McFarland, I am glad to accept that qualification. May I divert for a moment to something else: The sellers of wheat, as I understand it, are the grain elevators, the wheat pools or others who have taken wheat from the primary producer and who, in order to finance, must hedge?—A. They are the sellers. There might be other sellers who would be selling short in addition to that.

Q. I mean in the main.—A. They are the main sellers of wheat.

Q. And is the price which the primary producer receives for his wheat to any extent affected by the price at which the grain elevator may hedge.—A. Entirely.

Q. Entirely?—A. Yes. It is based entirely on the price at which they can hedge.

Q. May I, therefore, conclude that when you support the market either by the orderly sale of cash wheat which you have, or by the purchase of futures, you are maintaining a higher price for wheat for the primary producer? —A. I woud answer that in the affirmative.

Q. Then would it have been possible for you to have supported the market and to have accomplished that result unless the government had guaranteed the moneys which were secured from the banks?—A. Absolutely impossible without it.

By Mr. Duff:

Q. Mr. McFarland, if the situation had been different and if there had been less wheat to market, if there had not been such a great carryover from 1929 and 1930, if it had all been cleaned up in those years and we had a new start say, in 1921, in your opinion would the price be better for wheat to-day than it is in spite of the fact that you have endeavoured in the past three years to strengthen the market, or help to bolster up the market both with the help of the government and the banks, and your own ingenuity?—A. I would say yes.

Q. You would say the price would be better; and after all is said and done— —A. If the tables were all clear.

Q. Yes, if the tables were all clear, say in 1930, when you took charge, and we are only since then trying to dispose of wheat raised in 1931, 1932 and 1933, would not the price of wheat in the world market, and especially Canadian wheat, be much higher than it is to-day.—A. I cannot answer that, I do not know.

Q. No, but in your opinion as a good business man.—A. That would be based on the disappearance of 130 million bushels that was on hand on the 1st of August, 1931, would it not.

Q. Well, if that wheat was out of the way.—A. It is a question whether the disappearance of that 130 million bushels would have made the price higher. The rest of the world, you must remember, would have had what they have got or what they had.

Q. But taking that 130 millions of bushels off the market.—A. No, it would not.

Mr. Hackett: It would not have been more.

Mr. Duff: It might have been.

The Witness: The only way that a country can sell its wheat is when they have to sell it for export. Any sales made in the pit to speculators go back into the pit again. The only sales made in the pit that stay out of the pit do not go back again because the sellers and exporters grind it up and ship it out of the country; but speculator stuff aways comes back into the pit. Say it is sold for May delivery. He is not going to take delivery of it in May; he is going to resell it again, and someone has got to be there ready to buy it or the price bottom falls out.

[Mr. John I. McFarland]

By Mr. Duff:

Q. Is it not true, Mr. McFarland, I think it was in 1929 that somewhere around 10 million bushels of wheat could have been sold which were not sold either by the Grain Exchange or by the elevators, or by the producer.—A. No, I do not believe that.

Q. Is not that when the market got in this position.—A. Of course, our hindsight is better than our foresight. Some people thought it could have been sold but if you look at statistics you will see that it could not have been sold because the importing countries had all the wheat they could use and, therefore, there wasn't any chance of them buying any more. They bought all they needed and there was nothing more to be said about it. It was a straight case of over-production which has been in existence for the last five years or more and we are just wakening up to it. You cannot make people consume something they do not want.

Q. If there had been more wheat sold in 1929 than in 1930 would not the price have been higher.—A. I do not think so. It would not have increased the sale.

By Mr. Coote:

Q. Just a few questions arising out of the evidence that has already been given. It is not correct to say that the present world carry-over is just about what it was as a result of the big crop in many countries of the world in 1928.—A. The world carry-over last August 1st was 136 million bushels more than it was on August 1, 1929, just after the big crop. That was an enormous crop in 1928.

Q. In other countries outside of Canada as well—A. Yes, leaving out Russia though. They raised that year three billion nine hundred and five million bushels. There was a good deal of hope in the market of 1929 that prices might advance not because there was a short world crop, not at all, at least what the world thought was short. North America in 1929 had 600 million bushels less production than she had in 1928; some other countries had 100 million bushels more. The net result was that the 1929 crop was 500 million bushels less than it was in 1928. Many people thought that would create an equilibrium at the end of the year and that the big surplus in 1928 would be wiped out. The result was, however, that it only reduced it 48 million bushels as at August 1st, 1930, so although they raised 500 million bushels less in 1929 it only reduced the world carry-over 48 million bushels.

Q. Do the figures you have given us include Russia or China.—A. They do not include Russia or China. Russia and China did not concern us, except inasmuch as what Russia ships out or what China purchases.

Q. Yes, but they are the biggest consumers, amongst the biggest consumers of wheat in the world.—A. Yes, and big producers.

Q. Just to clear up I think what might have been a wrong impression, in the operations to maintain a certain price level for wheat at Winnipeg was that operation in behalf of all wheat producers or only for those who belonged to the Pool?—A. On behalf of all wheat producers; it was to the benefit of all.

Mr. Coote: I just wanted to get that clear for the benefit of some members of the committee.

By Mr. Spencer:

Q. We have heard a great deal of talk, that the trouble in the grain trade was brought about by the wheat pools of western Canada holding a great deal of wheat off the market. I would like to ask Mr. McFarland if when he took over his present position, he can give us in round figures the amount of wheat carried over by the Pool and the amount carried over by the rest of the grain

trade?—A. August 1, 1930, would be the date you would be interested in. At that time the Pools held about 50 per cent of the carry-over and the balance of the trade the other 50 per cent.

By Hon. Mr. Ralston:

Q. Mr. McFarland, you have told the committee that the physical wheat which you took over in 1930 was turned into futures. Just for the purpose of the record and for the purpose of those of us who are completely ignorant of the wheat market, will you tell us what that means?—A. I will just give you an illustration of that: Supposing last October, we will say, some person had ten thousand bushels of cash wheat. It is worth a certain price at that time relative to the May future. They sell the cash wheat and take the May future instead. In other words, they are long ten thousand May wheat instead of being long ten thousand cash wheat.

Q. And when you say "they," that means in this particular instance the Canadian Co-operative?—A. Yes.

Q. They have ten thousand cash wheat, as you call it, or many millions of cash wheat, and they sell that and buy, it may be May futures or July futures or October futures; they turn that wheat into options instead of carrying the physical wheat, is that correct?—A. Yes.

Q. And then when May comes and they find that the market is down and that wheat cannot be sold for the amount which was contracted to be paid for what is done?—A. It is switched then to the next month, July, and by doing that we have carried our wheat at an average of about 10 cents per bushel for each twelve month period instead of $15\frac{1}{2}$ to 16 cents which it would cost to carry the physical wheat in the terminal elevators.

Q. Let us see now, what do you mean by switching. The May wheat was bought at 50 cents, say and if wheat went down to 45 cents that wheat has to be taken at a loss theoretically, of 5 cents a bushel?—A. I will give you an illustration.

Q. But that loss of 5 cents has to be taken, has it not, between the price which prevails in May and the price which was contracted to be paid for the May futures.—A. I do not understand the hypothetical question.

Q. Just take an ordinary transaction, buying ten thousand bushels of May wheat at 50 cents. That means that somewhere between the 1st and 31st of May you have to take delivery of ten thousand bushels of wheat and pay 50 cents for it. May wheat at that time is only 45 cents.—A. That would be a 5 cent loss.

Q. Therefore, you would take a 5 cent loss. Now then, in order to switch as you say, what you mean is that you buy another future to see if you can recoup that loss.—A. No, you sell the future you have got and buy the next future.

Q. Yes, but you sell it at the prevailing price at that time.—A. That operation is done; the elevator companies have got their hedges in May option; they have got it sold and we have got it bought; before the 1st of May they may come to us and say they will switch this for us at $1\frac{1}{2}$; we pay $1\frac{1}{2}$ to them and that wheat is carried over a month more.

Q. And then in July it comes again that wheat is still down below the price which you agreed to pay for your July delivery, and another switch is made, to use your term.—A. That figure I gave you is the carrying charge.

Q. And, in addition to that, while you are switching in connection with the particular transaction you are engaged in the other operation which you have described to us to-night of supporting the general market, and you are probably purchasing other futures outside the futures you started with, or the physical wheat with which you started.—A. We may do if it were the Fall of the year when there are heavy deliveries and sales to take care of.

[Mr. John I. McFarland]

Q. You did, as a matter of fact.—A. Last Fall, yes.

Q. Every Fall from 1930 on you have increased your holdings of wheat, have you not.—A. No.

Q. I though you said to Mr. Power that you had more wheat on hand to-day in the shape of futures than you had to start with, from 1930.—A. We did not increase it in the first year.

Q. I am talking about from the time you started with your operations in 1930 until this day of Grace March 22nd, 1934; you have considerably more wheat on hand, or you are responsible for considerably more wheat than when you took over.—A. No, I would not say that. There was considerable wheat when we took over, and we sold a lot of that wheat between then and the 1st of August. We have more wheat on hand to-day than we had on hand the 1st of August, 1931.

Q. And you do not say that you have more wheat on hand than when you took over in 1930.—A. No. Well, probably we have.

Q. Everybody else thinks so, perhaps they are wrong.—A. I think we have.

Q. And haven't you by millions of bushels? I am not asking the number, but haven't you millions of bushels more on hand than when you took over.—A. Yes, we have got some wheat on hand.

Q. Yes, and I say by millions of bushels.—A. I will say millions of bushels, yes.

Q. And, to use a commonplace, you have been rolling it over in the hope that some of these days there might be a wheat shortage.—A. Not for that reason at all. We have been rolling it over because we had to do it to maintain the price in the country.

Q. I know, but in the hope that some day you might come out clean.—A. We live in hopes, you know that with reduced production we will probably clean up that way.

Q. In the hope of a short crop, or reduction in crop, or that some fortuitous circumstance will happen to relieve you of what you took over plus what you have taken on since.—A. But we are not holding it off the market, we are not holding it from export.

Q. But you are easing it into the market in order not to break the price.—A. We are easing it into the market.

Q. And you are at times having to purchase wheat in order to support the market.—A. We do that.

Q. As a matter of fact, last summer you sold wheat, when wheat was high.—A. Yes.

Q. And you bought probably just as much a little later.—A. No.

Q. How much.—A. We bought back about the same amount as we sold. Speculators bought it and it had to be thrown overboard and someone had to buy it.

Q. And you are where you started, as far as 1933 is concerned, and what you have been doing is trying to create a demand for the wheat that you have by purchasing it yourself.—A. No, I would not say that.

Q. Is not that so.—A. That does not create a demand.

Q. Does it not.—A. No, only supports the price until the consumer wants it.

Q. It does not create a demand.—A. No, I do not see how it creates a demand.

Q. You have been selling and you have been buying.—A. There is nothing creates a demand. Demand is constant. There is nothing you can do to increase a demand or consumption.

Q. You create a demand if you take it off the market.—A. We create a support so as to maintain a price level.

Q. You create a support. In other words, you have taken so much wheat off the market, is not that so.—A. Yes.

[Mr. John I. McFarland]

Q. And the speculator has disappeared entirely has he not.—A. Not entirely, but he is not very much in evidence, and has not been for a long time.

Q. Was the speculator any help to the market at all.—A. Well they do say the speculator carried the hedges, but you know what they said before the Stamp Commission. They said 99 per cent of them lost money and since that time the speculator is a little leary about carrying hedges.

Q. I am asking you if the speculator is useful in connection with the market. Would you rather have the market with the speculator in or out?—A. I would rather have the market with the speculator in.

Q. And the speculator is not in?—A. No.

Q. And is it the result of your operations that has put the speculator out?—A. Absolutely not.

Q. The investor is still there?—A. I do not know whether there are any investors left.

Q. The results are, first the speculator is out and secondly that there is a large quantity of wheat overhanging the market known to be in hands close to the government?—A. Yes.

Q. And that has something of a depressing effect on the market?—A. I would say not as depressing an effect as it would have if a large quantity was held by a lot of group holders who were liquidating it causing a chaotic condition in the market.

Q. It might not have as depressing an effect if it were not someone other than yourself who was handling it?—A. The position is open to anybody that wants it, Mr. Ralston. I am not here from choice at all.

Q. I am not saying that sarcastically at all.—A. Well, it sounded like it to me.

The Chairman: You do not think you want to press that question, Mr. Ralston, do you.

By Mr. Ralston:

Q. Now Mr. McFarland, do you know that the guarantees run until you have actually disposed of not only the physical wheat but all the future contracts which you have?—A. I do not know much about the guarantees.

Q. Well, Mr. McFarland, you know that the government is financing it, do you not?—A. Yes.

Q. And have you ever had any intimation that you had to close out?—A. How do you mean "close out"?

Q. To close out, to dispose of your stock?—A. No hard and fast instructions.

Q. You use your own discretion in that?—A. We are supposed to sell wheat where there is a consumer demand for it and get it out of the country.

Q. And I say you are to use your own discretion to how much wheat you will sell from time to time?—A. Considerably that way.

Q. And you know as far as any instructions that you may have are concerned, you may hold it as long as you think it prudent?—A. I have no such instructions whatsoever.

Q. Have you any instructions as to how long you are to hold it.—A. None, I don't know how long.

Q. And, as far as you know, the guarantee runs until you have actually disposed of all these future deliveries.—A. I don't know that at all.

Q. You don't know anything about it.—A. That is wrapped up in the inscrutable future, as far as I know.

Q. I see. As far as you know you may hold this wheat and dispose of it in the market or handle it as you think fit so long as you care to stay on the job and consider it prudent to hold it.—A. I cannot answer that question.

Q. Well, you have no instructions at all.—A. No.

[Mr. John I. McFarland]

Q. And have you had any instructions with regard to disposing of it, or have you been allowed to exercise your own discretion entirely.—A. I am told to dispose of wheat, when it is possible to dispose of it, and we are disposing of it within the terms of the concluded agreement.

Q. And to buy it when you think it is desirable to buy it.—A. It could happen that way.

Q. No, no, but is not that part of your instructions too.—A. If it is a matter of taking hedges, certainly.

Q. Just look at this order in council, 685. There is an expressed condition in the order in council—perhaps you don't know about it—the order in council of the 12th April, 1933;

> The Minister is advised that at such date Wheat Producers had in its possession wheat acquired in connection with and pursuant to said order in council.

Had you physical wheat on hand on the 12th April, 1933.—A. What was the last question, Mr. Ralston.

Q. Order in council P.C. 685, 12th April, 1933:

> The Minister is advised that at such date Wheat Producers had in its possession wheat acquired in connection with and pursuant to said order in council.

I am asking you if you had any physical wheat on hand on the 12th April, 1933?—A. From my recollection, no.

Q. Then you do not know who advised the Minister to recite that in the order in council?—A. I think that refers to futures.

Q. No, Mr. McFarland, because if you will read along a little further you will find that futures are referred to separately.—A. It is possible that whoever drew this up may have thought that we had both physical wheat and futures. We have had physical wheat. Last May we took delivery of a lot of wheat for Fort William.

Mr. Ernst: My friend has no right to ask the witness to interpret a document. The document speaks for itself.

By Mr. Ralston:

Q. I have not asked a question on any matter of law or on any matter of interpretation. I have just simply asked Mr. McFarland whether he had any physical wheat on hand on the 12th April, 1933, and he has said he had not.—A. That is to make provision for the possibility of handling it.

Q. You thought the order in council referred to futures, and I have pointed out to you that futures are referred to in a subsequent clause:—

> . . . and that contracts for the purchase and future delivery of wheat and other grains had previously been entered into by wheat producers, as contemplated by and in pursuance of said order in council.

A. I will tell you what it means now.

Q. Mr. Ernst says you cannot tell, but I am perfectly willing for you to tell.—A. I can tell you what it means. This is in April. In May we were taking delivery of wheat at Fort William. This is to cover the possibility of taking delivery of that wheat and paying for it.

Q. The date of the order in council is 12th April, 1933, the date which is recited is the date on which you had physical wheat, the 31st March, 1933. Perhaps you would like to change your answer?—A. I do not know.

Mr. Ralston: Would the banks know.

The Chairman: They would know from the report.

[Mr. John I. McFarland]

By Mr. Mercier:

Q. If a man were to buy ten thousand bushels of wheat at 50 cents a bushel with delivery, say, six months hence, how much would he have to pay in the future?—A. He would have to pay 50 cents a bushel for it or $5,000, if it were physical wheat.

Q. Would he have any storage to pay?—A. If he took delivery of it, he would have to pay storage from then on.

Q. What would he have to pay?—A. A cent and a half a bushel storage, and he would either have to use his own money or else borrow the money and pay interest on it.

Q. He pays storage of only one cent a bushel.—A. Yes, a cent a bushel. I think I said a cent and a half.

By Hon. Mr. Lapointe:

Q. As to the guarantee by the government, I do not see in the orders in council any fixed amount of a guarantee. Do you know of any understanding that there should be a maximum amount that you could not go above.—A. That was a matter of arrangement between the government and the banks. I had nothing to do with that.

Q. You have no knowledge of it.—A. No.

By Mr. Bothwell:

Q. Mr. McFarland, you stated that you were able to carry these futures at 10 cents a bushel per year whereas if you had the actual physical wheat it would cost you 15 cents.—A. Yes.

Q. Well, the wheat was still there according to what you told us, on the 1st of August, for instance, 1933, there was about 50 per cent of the physical wheat in Canada held by the wheat producers. Who pays these elevator charges, if you did pay and save 5 cents there, who actually pays it.—A. It can only be explained in one way and that must be taken up by the storage men.

Q. So that the storage men take a loss of 5 cents, do they.—A. They do not take a loss. That is not a loss to them, they don't make so much, that is all.

By Mr. Vallance:

Q. Mr. Chairman, if you are through with Mr. McFarland on this particular question, there is another question that I was asked to draw to Mr. McFarland's attention, and I know the committee will bear with me while I suggest this question. Mr. McFarland, when you became manager of the Central Selling Agency in 1930 was there a certain volume of Durum wheat then being delivered to the Pools.—A. It had been delivered and I suppose some was still being delivered.

Q. I am talking about 1930 when you took over.—A. Yes.

Q. Well then, was it the policy of the Pool to keep separate each grade and type of wheat and pay to those delivered the amount received from the sale of same.—A. That refers to the Manitoba Pool because they held Durum wheat. Durum wheat so far as the Manitoba Pool accounting system was concerned, and so far as its banking was concerned, was not kept separate from other wheat or other grain.

Q. The Durum was not kept separate.—A. The physical wheat itself was kept separate, but in the accounting system it all went into the bank under the same name. It was not kept in a separate account.

Q. Was all the money received from the sale of Durum wheat in the crop year 1930-31 paid back to the producer.—A. No.

Q. Has he been paid since.—A. No.

[Mr. John I. McFarland]

Q. Can you give this committee any reason, Mr. McFarland, as manager of the Central Selling Agency why that was not paid back.—A. Well, the Manitoba Pool is insolvent.

Q. It is insolvent.—A. It is really insolvent. The Manitoba Cooperative Company went into liquidation did it not.

Q. Well then, am I to understand, Mr. McFarland, that this half a million dollars that is past due, the Durum wheat growers can consider that a loss. —A. The Pool Company itself, while it got that money yet it was short of money on other stock and they did not have the money to pay for it. They got their initial payment in full the same as all the other farmers got on their wheat.

Q. Am I to understand then that the Durum wheat growers have to lose that amount of money in order to meet the accounts of the general wheat situation.—A. That is a matter between the Pool members of the Manitoba Pool Company.

Q. But, Mr. McFarland, you were the manager at that time.—A. No, this all happened before I got in there. Practically all that wheat was delivered and sold.

Q. Before you took over.—A. That Durum, yes. There was some of it left over. The trouble there is, that the Durum farmer got his initial payment on the same basis as all the other farmers got for the different varieties of wheat.

Q. Excuse me, Mr. McFarland, you are not intimating to me that the Durum farmer got the same advances or initial payment that say the Marquis spring wheat farmer got for his?—A. Not exactly the same, but they got what they decided at that time was a fair division between the two. I had nothing whatever to do with this particular transaction no more than the man in the street. I had nothing to do with anything except the Central Selling Agency. I am simply trying to elucidate your question.

Q. In connection with this Durum wheat situation you had nothing to do with it?—A. I had nothing to do with it. We sold the wheat and turned the proceeds back to the Manitoba Cooperative.

Q. You mean you sold it?—A. It came through Central.

Q. Surely you as manager would have something to say about the disposition of it?—A. No, nothing at all.

Q. You merely passed the money in to them and they disbursed the money to those who contributed the wheat?—A. We had nothing to do with their customers after that.

Q. So that you as manager had nothing to do with it after all?—A. I was only manager of the Central Selling Agency and had nothing to do with the disposition of the money. I have told you that, and I have told them that.

Q. Well, you do not mind if I tell them that you have told me so?—A. No.

The CHAIRMAN: Gentlemen, are there any more questions that any member of the Committee would like to ask Mr. McFarland? Mr. McFarland, is there anything that you would like to say before you leave the stand.

The WITNESS: Gentlemen, I thank you very kindly for the manner in which you have treated me. I want to refer back to the terrible times that we have had, I mean myself. I have gone through a lot of troubles worrying about this wheat pool. There is only one thing that has been a sort of solace to me through it all, and that is that nobody can say that I have prolonged the selling of this wheat in order to retain a lucrative position.

Looking back at the problems that have confronted Canada, as well as other exporting countries, we find France with an 85 cent per bushel duty, with restrictions on milling and quotas, protecting their farmers up to the hilt so that they will get big prices for their wheat and encourage them to raise more; and

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that has been going on for three years. Germany with $1.62 duty doing the same thing. Italy with $1.03 duty and doing the same thing, their farmers all protected behind great tariff barriers, barriers that it is impossible for our farmers to climb over. Then there are other lesser countries doing the same thing to a smaller degree but to a considerable extent increasing the prices to the native farmers in those countries. Then we look at Australia. Australia is bonusing her farmers. This year they are paying $1,500,000 to their farmers. The Argentine has virtually got a wheat board, giving their farmers a good deal more money for their wheat than what they are selling it at overseas. The United States during this period have spent I don't know how much of that $500,000,000 in support of wheat farmers, in all probability $150,000,000 or $200,000,000 of it has gone to American wheat farmers. Not only that but now they are paying them a processing bonus of so much per bushel in order for the American farmer to get through these trying times of depression. Japan protects her farmers to the extent of about 40 cents a bushel. China protects her farmers against our cheap wheat to the extent of 9 cents, I think. These are all the difficulties that our farmers have had to face in these trying times. But if you will only realize that in these three years, or a little more than three years, the western farmer has marketed upwards of one billion bushels of wheat—and he has marketed that under these operations—and again nobody knows to what extent he has profited on a billion bushels; I do not know what he has profited, but $100,000,000 would be a small guess, and all that has gone to the benefit not of the western farmer only but to Canada as a whole.

How can anybody complacently stand by and see the western farmer eliminated when he has contributed some 31 or 32 per cent of the external trade of this country for the last twenty years? Could we stand by and let him be eliminated in a world that had barricaded itself against other exporting countries to support their farmers? No matter how much wheat had been guaranteed, and I do not know to what extent it has helped, but I will say this much: That a 10 per cent increase in the price of wheat would create a condition where there would be no call under government guarantees. Now 10 per cent is not much of an increase. I am somewhat of an optimist even yet, although I have had a lot of hard knocks. I have been asked to go over to Rome to attend this advisory council. What the discussion is going to be there I do not know, and I do not know what can be accomplished, but I have hopes that something yet will be worked out, that this wheat will be worth a little more money. The importing countries want the price up too. I forgot to mention the United Kingdom. Like all other countries, they are helping their farmers to the extent of $1.35 a bushel. I do not think this country has contributed very much to the western Canadian farmer, in view of the handling of a billion bushels of wheat and all the benefits that have accrued to the rest of Canada by the increased price which I am positive has been brought into the country.

Mr. Power: May I point out in answer to Mr. McFarland's speech, that I have no apology to make. As far as I know, no one here is opposed to giving any assistance to the western farmer, but in so far as I am concerned, and in so far as some of my colleagues are concerned, what we want to know is the extent of that assistance and how it has been furnished, and that we do not seem to be able to get.

The Chairman: That is not my fault. If it is not too late we might hear Mr. Logan, or if you prefer we shall adjourn until to-morrow morning at 10 o'clock. Mr. McFarland will have to go away to-morrow.

Mr. Duff: Mr. Chairman, before you call Mr. Logan, I understood that the vote of the committee a few minutes ago precludes us from asking any information with regard to the financial condition of this wheat operation. If that is so, there is no necessity for calling Mr. Logan, the thing is concluded.

The CHAIRMAN: I do not think so. I think he has a lot of information to give us, at least that is my understanding.

Mr. DUFF: I do not think Mr. Logan can give us any information with regard to the financial operations of this venture.

The CHAIRMAN: I am not sure that that is correct.

The witness retired.

S. H. LOGAN called.

WHEAT POOLS

ORIGIN AND EARLY FINANCING

Everyone is fully familiar with the purposes for which the Wheat Pools were formed. The movement originally started in 1923 in Alberta with the formation of a company known as the Alberta Co-operative Wheat Producers Limited. Later on similar companies were organized in Saskatchewan and Manitoba. There was also formed a company known as the Canadian Co-operative Wheat Producers Limited, which concern acted as selling agents for the provincial pools. As is well known, the pools did not hedge their grain holdings, as to do so would be inconsistent with the pooling principle. The procedure followed was to make an initial payment as the grain was delivered by the farmers, interim payments throughout the season as sales warranted and a final payment when the entire crop had been sold. All grain was shipped to the terminals by the provincial pools to the order of the Canadian Co-operative Wheat Producers Limited. This company applied to the banks for and was granted credit against terminal grain documents under section 86 of the Bank Act. At this time all financing for the three provincial pools was done through the Canadian Co-operative Wheat Producers Limited (the Central Selling Agency) and in addition to the security in the form of grain the banks held the open guarantees of the three provincial pools. This represented considerable worth as their elevator and commercial reserves amounted to $22,023,726, practically all invested in grain elevators, flour and coal sheds, dwellings and terminal elevators.

In the absence of hedging the banks stipulated for a higher margin than that usually provided by the grain trade and 15 per cent was set. It was an underlying condition of this arrangement that the initial and interim payments would be set at figures which would enable the pool to maintain that margin—in other words, that the pool membership would carry the hedge—and that the lending banks would be consulted beforehand.

As a matter of convenience in keeping in touch with the pool officials and the operations of the pool, the banks arranged with the pool to set up what was called the Lending Banks Committee, consisting at first of three members and later on of one official from each lending bank, with one of the number acting as chairman. The lending banks were—

Bank of Montreal,
The Royal Bank of Canada,
The Canadian Bank of Commerce,
The Bank of Nova Scotia,
Imperial Bank of Canada,
The Dominion Bank,
The Bank of Toronto.

The practice was for the pool to distribute the loans between these banks pro rata to capital.

[Mr. S. H. Logan]

For several years the operation of the account involved no serious problems in so far as the banks were concerned, as prior to 1928 the company throughout each season maintained sales at a level which resulted in satisfactory repayment of the loans. In 1928, however, they carried about 50,000,000 bushels unsold into the 1929 season. This resulted in the banks carrying over loans of approximately $69,000,000 against total stocks of over 77,000,000 bushels including grain sold but not delivered.

Provincial Government Guarantees

During the fall of 1929, generally speaking, there was a lack of export demand. Late in January, 1930, the market was acting very badly and on the 29th of that month when May wheat was $\$1.27\frac{3}{8}$ and cash wheat $\$1.22\frac{3}{8}$, the pool officials asked the chairman of the Lending Banks Committee what the attitude of the banks would be should wheat further decline to a point where the company would be unable to furnish the required margin of 15 per cent, which point was said to be $1.18 or $1.19 on a May basis. If the banks insisted on the margins being maintained, it would then become necessary either to reduce the initial payment or to sell grain in sufficient quantity to enable the margin percentage to be maintained, or both. The chairman told them that he could not give an answer without consulting the other banks but he felt that the banks would likely expect margins to be maintained even at the expense of some liquidation of grain holdings. Obviously, the pool officials then, and without awaiting any further intimation of the attitude of the banks, approached the governments of the three Prairie Provinces for their guarantees, for at the next meeting which they had with the Lending Banks Committee on 1st February they said that they were in a position to furnish such guarantees in place of margin.

In due course the formal unconditional guarantees of the provincial governments of Manitoba, Saskatchewan and Alberta were furnished, which guarantees were made to expire on 31st July, 1930, as to new advances.

In the first week of August, 1930, the three provincial premiers and pool officials came east and had a conference with the banks, as an outcome of which the banks agreed to make additional advances of $4,000,000 to the company to complete the financing of the 1929 crop, against the written undertaking of the premiers on behalf of their respective governments to guarantee repayment unconditionally. The premiers made it clear that they were determined to stand behind the pool in connection with the situation which had developed in respect to the marketing of the 1928 and 1929 crops and that they expected the banks to make it possible for them to do so. Following this conference a further conference took place at Ottawa, one of the principal matters discussed being the financing of the new (1930) crop. At this conference the banks agreed to authorize a credit without government guarantees for the purpose subject to certain special conditions, one of which was that a 20 per cent margin in grain documents would be provided. Wheat was then 92 cents and the initial payment was set at 60 cents. In September, 1930, the market trend was decidedly downward and to meet such a situation the banks agreed to reduce their marginal requirements to 15 per cent, should wheat go below 75 cents. Notwithstanding this action, however, the pools on 15th October due to dropping wheat prices felt compelled to reduce the initial payment from 60 cents to 55 cents.

Early in November another serious crisis arose. The central pool reached the point where it could not continue to maintain its margins with the banks or provide additional margins to protect its contracts for future delivery of wheat. On 14th November a conference took place in Winnipeg between the banks, the premiers and the pool officials, as an outcome of which further

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advances of $561,000 were made on the guarantees of the provinces to protect their position and the premiers despatched an urgent telegram to Ottawa for delivery to the Canadian Bankers' Association which was meeting there the following day. In this telegram they stressed the seriousness of the existing wheat situation and the very great damage which the failure of the wheat pool would have on the West. They suggested that the domestic wheat price should be stabilized at 70 cents. They further reiterated their desire to assist in any way possible but that they had already pledged the credit of their respective provinces to the limit, and urged that the banks should carry the present situation regardless of price fluctuations until the return of the Prime Minister—who was then in London, Eng., attending the Imperial Conference—when the whole matter could be discussed with him with a view to such action being taken as would protect the producers of wheat and the banks. They sent an identical message to Sir George Perley, acting Prime Minister, at Ottawa, but with the closing sentence reading as follows: "Will appreciate your consideration and assistance in this matter".

Dominion Government Guarantees

Following the despatch of the telegram to Sir George Perley referred to in the previous memorandum (No. 2), the Premiers proceeded to Toronto, where a conference was held with the banks on 17th November and an agreement was reached to protect the contracts for future delivery of wheat in connection with the 1929 crop to orderly liquidation. The Premiers then proceeded to Ottawa, where they conferred with the Dominion Government on 18th November, 1930. As a result of that conference the Dominion Government agreed to guarantee the banks against loss up to $5,000,000 in connection with the financing of the 1930 crop movement, this arrangement to remain in force until the return of the Prime Minister. It was understood also that the company would install a General Manager who would be acceptable to the company, the premiers and the banks. Mr. John I. MacFarland was appointed by the pool to this position on 24th November.

The Prime Minister duly returned to Canada and visited the West in January, 1931. On the 23rd of that month he wrote a letter to the President of the Canadian Bankers' Association outlining that the serious situation which had arisen out of the falling prices for wheat and other grains had been engaging the attention of the Government, that after due consideration they were convinced that the public interest of Canada as a whole was involved and that it was the duty of the Government to take such steps as would prevent what would be nothing short of a national disaster if there was a forced liquidation of wheat and other grains in Canada at this juncture. In this letter he stated that the Government, therefore, undertook with the lending banks to guarantee them against loss through the making of advances to Canadian Co-operative Wheat Producers Limited and the three provincial pools in connection with the marketing of the 1930 crop. He also undertook that such implementing legislation as might be necessary would be introduced by the Government and pressed to enactment at the next ensuing session of parliament. The provincial pools continued to market their deliveries up to the end of this crop year (1930-31) through the Canadian Co-operative Wheat Producers Limited. On 31st July, 1931, a cut-off was made and since then they have operated as separate entities and each has done its own selling and financing.

Since that time the following further guarantees were given by the Dominion Government:—

For advances to the three provincial pools covering the 1931-32 crop.

For advances to the three provincial pools covering the 1932-33 crop (The advances for which these guarantees were given were duly liquidated and the Dominion Government has no liability in connection therewith).

[Mr. S. H. Logan]

For advances to Canadian Co-operative Wheat Producers Limited (This account is still being conducted under the guarantee of the Dominion Government).

Since 31st July, 1931, the banks have loaned to Canadian Co-operative Wheat Producers Limited from time to time on the guarantee of the Dominion Government such amounts as have been required to carry such quantities of wheat and/or contracts for future delivery of wheat as in the estimation of the Co-operative and with the approval of the Prime Minister have been necessary to ensure the orderly marketing of the Canadian wheat crop. On a good many occasions in the last two years buying power either for export or speculation has not been present in sufficient volume to take care of the legitimate hedging operations essential to the functioning of the grain market. On such occasions purchases by the Co-operative have filled the gap. These advances by the banks have not had the effect of encouraging speculation but rather the contrary. In periods of weakness speculators who might have sold short have been discouraged from doing so by the knowledge that the Co-operative with the powerful support of the Dominion Government was likely, if not certain, to support the market. On the other hand, speculators for the advance would hesitate to take a strongly bullish position knowing that the large holdings of the Co-operative might come on the market in substantial volume at any time. In this way the price has been protected from severe drops in periods of poor consumptive demand and in periods of strength from rising so far above the world price as to stop the movement into export channels.

Provincial Pools Financing

At the outset and for the first several years the provincial pools were financed by the Central Selling Agency, the Canadian Co-operative Wheat Producers Limited, which did all the borrowing for the entire connection. About 1927 the provincial pools began to break away from this arrangement and subsequently financed themselves, almost if not entirely, and arranged their own bank credits. These credits have been repaid in full each year and no losses to the banks have been involved.

The entire group of seven banks lending to the Central Selling Agency have not been engaged in provincial pools financing, which has in the main been confined to five of the number grouped differently in each province.

As has been noted previously in this memorandum, the Dominion Government guaranteed advances to the provincial pools from November, 1930, to 31st July, 1933.

Copy of Telegram despatched on November 13, 1930, by the Hon. J. T. M. Anderson, Premier of Saskatchewan, to The Canadian Bankers' Association—

> On behalf Premiers Manitoba, Saskatchewan, Alberta, desire urge representations to-day jointly presented your Superintendent here (Stop)
>
> First: We cannot too strongly state utter depression of agriculture throughout West which is reflected in all branches business (Stop)
>
> Secondly: Failure of Wheat Pool would strike final blow to hopes very great number farmers and business men causing incalculable damage public morale as well as possible complete collapse market (Stop)
>
> Thirdly: Present liquidation would leave banks with wheat largely taken in at sixty cents while few weeks will result deliveries substantial quantities at fifty cents initial payment so that banks ultimate risk of loss not increased by delay (Stop)
>
> Fourthly: Demand for stabilization domestic price at seventy cents without restricting export sales rapidly developing and supported by leaders all farm organizations. We propose urge same before the Premier

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immediately upon his return to Dominion of Canada believing farm industry cannot work through present crisis unassisted (Stop)

Fifthly: Provincial Premiers desirous assisting in any way possible but have already pledged credit Provinces to limit (Stop)

We urge, however, that in view above banks carry present situation regardless price fluctuations until the Premier returns when whole situation can be discussed with him with view some action which will protect banks and producers wheat (Stop)

In the meantime we are discussing with Wheat Pool and Superintendents here any question involving difference of opinion (Stop) It is our considered judgment that return of confidence in wheat situation fundamental to purchasing power in West and, therefore, recovery general business conditions (Stop)

We solicit your sympathetic consideration and co-operation.

(Signed) J. T. M. ANDERSON,
Premier of Saskatchewan.

Identically the same message was despatched to Sir George Perley, Acting Premier, Ottawa, but with the following closing sentence:

Will appreciate your consideration and assistance in this matter.

Copy of letter under date of January 20, 1931, from the Right Hon. R. B. Bennett, Prime Minister, to Beaudry Leman, Esq., President The Canadian Bankers' Association.

The serious situation arising out of the falling prices for wheat and other grain, has been engaging the attention of the Government practically ever since the crop for 1930 came upon the market. The Canadian Co-operative Wheat Producers Limited, hereinafter referred to as "The Wheat Pool" and Allied Companies to wit:

Saskatchewan Co-operative Wheat Producers Limited
Alberta Co-operative Wheat Producers Limited
Manitoba Co-operative Wheat Producers Limited

hereinafter referred to as the "Allied Companies" and the subsidiaries of the Allied Companies have, we are informed, been receiving advances in connection with their marketing operations from certain of the banks, known as the "Lending Banks" in order that the producers might receive a reasonable initial payment, and that the crop might be marketed in an orderly manner. We have been advised that a margin of 15 per cent was at all times to be maintained with the "Lending Banks" by the "Wheat Pool" and "Allied Companies" and subsidiaries, against prevailing market prices plus carrying and other charges. With the gradual decrease in prices that has taken place, it is obvious that it has become difficult, in fact practically impossible, for the "Wheat Pool" and the Companies referred to to maintain that margin. The Government realize that if the "Wheat Pool" and these Companies were forced to suspend operations, the price of wheat in this country, now at a level unprecedentedly low in the history of the grain trade, will drastically decline, with great loss not only to the "Wheat Pool" and the other grain companies but to the entire farming and business interests of Canada. Representations have been made to the Government to this effect, not only by the interests directly concerned, but by other important Canadian enterprises. We have canvassed the situation from all possible standpoints.

We are convinced, after mature consideration, that the public interest of Canada as a whole is involved and that it is the duty of the Govern-

[Mr. S. H. Logan]

ment to take such steps as will prevent what would be nothing short of a national disaster, if there was a forced liquidation of wheat and other grain in this country at this juncture. The Government, therefore, undertake with the "Lending Banks" to guarantee and hereby, so far as it legally may, guarantees them against any loss they may ultimately sustain, through the making of advances to the Canadian Co-operative Wheat Producers Limited and "Allied Companies" and subsidiary companies, including advances heretofore made, or to be made, and interest thereon, in connection with the marketing of the 1930 crop of wheat and other grains. Such legislation, if any, as may be required to implement this guarantee and undertaking will be introduced by the Government and pressed to enactment at the next ensuing session of the Parliament of Canada.

For the Government of Canada,

(Signed) R. B. BENNETT,
Prime Minister and Minister of Finance.

By Mr. Duff:

Q. Mr. Logan, could you tell the committee what the amount was which the lending banks had loaned to this organization or wheat pool, or whatever you call it, as of July 31st, 1931, and as to which the Dominion Government guaranteed the lending banks.

Mr. BOWMAN: I thought we voted on that question, Mr. Chairman.

The CHAIRMAN: I think, Mr. Duff, in view of the decision of the committee previously this evening, you should not press that question.

Mr. DUFF: Well, Mr. Chairman, I do not intend to press it. I would like an answer, however, but if the committee, or you as chairman, refuse to allow Mr. Logan to answer it, or Mr. Logan won't answer it, then I have to be content. All I say is that I think it is in the public interest that the question should be answered.

The CHAIRMAN: That is a matter of opinion. The committee decided against it.

Mr. DUFF: All right, I have no objections. I believe, however, in freedom of speech and freedom of opinions, and I would like a decision as to whether Mr. Logan is going to be allowed to answer my question.

The CHAIRMAN: In view of the previous decision I do not think you ought to press that question.

Hon. Mr. LAPOINTE: I just want to ask Mr. Logan whether there is an understanding as to a maximum amount involving the guarantee of the government.—A. The amount changes from time to time.

Q. There is no fixed amount beyond which the guarantee should not go?—A. No, there is no definite amount.

By Mr. Spencer:

Q. I would like to ask, Mr. Logan, the rate of interest the banks charged the Co-operative Wheat Producers Limited on their loans prior to the government giving their guarantee?—A. The rate was 6 per cent.

Q. And what is the interest charged after the government gave the guarantee?—A. Five and a half per cent, and we give them a special rate of interest on their credit balances.

Q. In all fairness, Mr. Logan, do you not think that $5\frac{1}{2}$ per cent is fairly high with a government guarantee which practically makes the security gilt edge?—A. Well, yes, by itself perhaps, but having in mind the high rate of interest on their credit balances, no.

Q. May I ask what they are allowed on their credit balances?—A. They get $4\frac{1}{2}$ per cent on their credit balances.

By Mr. Bothwell:

Q. I would like to ask, Mr. Logan, if the individual wheat pools of the western provinces have bank credits in addition to the Co-operative Wheat Producers?—A. Each one.

Q. That is, each Provincial pool is financing its own particular business.—A. That is correct.

Q. And they have been doing that since what time.—A. Commencing in the 1933 season.

Q. 1933.—A. Yes, last year. Prior to 1933 they had the guarantee of the government. Last year we had no guarantee from the government whatever. They are doing their own financing.

Q. I understood that was in 1931, from Mr. McFarland.—A. It was last year they started solely on their own credit. I think that is correct.

Q. So that in 1931 and 1932 you had the government guarantee.—A. We had the government guarantee.

Q. And the individual wheat pools, from your statement as I gathered it, have been able to take care of their obligations.—A. That is correct.

Q. I understand that you still have the Federal government guarantee in connection with anything going back beyond 1933.—A. That was all cleaned up. They went for two years, I think, on the Dominion government guarantee, and this last year, that is the 1933 wheat crop, each one of those pools started on their own, doing their own financing, and they do their own marketing so far as we know; they do their own hedging.

Q. And they have been able to live up to their obligations.—A. Absolutely.

By Hon. Mr. Ralston:

Q. Mr. Logan, would you be good enough to read the operative part of the Prime Minister's letter of January 20th, 1931.—A. Yes.

> The government, therefore, undertake with the "Lending Banks" to guarantee and hereby, so far as it legally may, guarantees them against any loss they may ultimately sustain, through the making of advances to the Canadian Cooperative Wheat Producers Limited and "Allied Companies" and subsidiary companies, including advances heretofore made, or to be made, and interest thereon, in connection with the marketing of the 1930 crop of wheat and other grains.

Q. Was there any discussion at that time, Mr. Logan, as to what have been referred to as supporting operations.—A. No, that would be at the beginning of 1931, covering the 1931 season.

Q. But there was no discussion at that time, at the time the Prime Minister's letter was written.—A. No, that letter was written after the Prime Minister came back. The Provincial Premiers came down in the Fall of 1930 to see the banks, and they came on here to Ottawa to see the government, so far as we know, and the outcome of it was that first there was a guarantee for $5,00,000, and then after the Prime Minister came back and went fully into the situation he wrote us that letter in January, 1931.

Q. What I was getting at is this, Mr. Logan, that under the Order in Council which was subsequently passed there was provision for guaranteeing the banks against loss for advances made in connection with or incidental to the marketing of wheat, and then it went on to say:

[Mr. S. H. Logan]

Including advances for purchases of wheat or other grains deemed necessary by wheat producers to secure the advantageous sale of such grain already delivered or to be delivered to wheat producers.

I am asking you whether there was any discussion with regard to a guarantee to cover such operations as I have just read, namely, the purchase of futures. —A. I just cannot tell you.

Mr. DODDS: I can answer that if I may. The answer is No. (See page 277.)

By Hon. Mr. Ralston:

Q. I take it, Mr. Logan, that you have given us all the documents passing between the government and the banks with regard to the 1930 crop and the purchase of futures in connection with supporting operations except the Orders in Council.—A. Those are the outstanding points so far as I have any knowledge of them.

Q. Who was the president of the Canadian Bankers' Association at that time.—A. Beaudry Leman, I think it was, but the bulk of that was done in Winnipeg.

Q. Who was chairman, the chairman you refer to in your statement.—A. Mr. Henderson, of Canadian Bank of Commerce, Winnipeg, was chairman. He is the superintendent of our Manitoba branch, with headquarters at Winnipeg.

By Mr. Power:

Q. The Canadian Bank of Commerce.—A. Yes, the Canadian Bank of Commerce.

Q. Then so far as you know, from the Prime Minister's letter of January 20, 1931, until the Order in Council of 12th September, 1931, there was nothing passing between the government and the banks in the way of a guarantee; I am not talking about individual letters at the moment.—A. I should not think there would be, because those documents here pretty well cover the 1930 crop.

Q. Could you ascertain that?—A. Yes, I could ascertain that.

Q. There was no agreement executed by the Finance Minister, or any minister of the government?—A. No, no, nothing of that description.

Q. When the Orders in Council were passed I presume copies of them were forwarded to the banks?—A. That is correct.

Q. That is the form which the agreement took?—A. Yes.

Q. And you said to Mr. Ralston that there was no definite amount. Was there at any time any limit placed upon the amount which the banks were to lend on any of these Orders in Council outside the limit which is provided in the Orders in Council respecting the three provincial pools?—A. There were limits put on the provincial pools. You mean limits of credit to the Saskatchewan, Alberta, and Manitoba pools, those three pools.

Q. Yes. Was there any limit which could be put on the amount of money which could be loaned to the Canadian Co-operative Wheat Producers?—A. No, I think that could be varied from time to time.

Q. No, but was there at any one time any limit prescribed by the government as to the amount of loan that might be made, the amount of advances which might be made?

Mr. DODDS: Yes.

The WITNESS: That was determined from Winnipeg. The bulk of the correspondence came from Winnipeg. There was always a limit that the banks were willing to lend up to a certain point.

Q. How was that limit fixed, was it by letter from the government?—A. In all probability there was some communication from Winnipeg of some kind to the government.

Q. I am putting it the other way about. I am asking whether a limit was imposed by the government on the amount which might be advanced under these Orders in Council; there is no limit mentioned in the Orders in Council. —A. I don't think there was.

Mr. Dodds: I think from time to time the limit changed, but there was always a limit as to the amounts the banks would lend. Mr. McFarland would find he was running short and authority would come from the government for us to increase the amount.

Q. Was that limit imposed by the government?—A. Yes.

Q. By letter?—A. I think sometimes by telegram, or telephone I think, too.

Q. Would you have any of these letters, Mr. Dodds.

Mr. Dodds: I haven't any of them but I could find out if we have any.

Q. What I am getting at is, whether a limit was imposed by the government.

Mr. Dodds: There was always a limit.

Q. I am just pointing out the Order in Council does not show any limit at all.

Q. Was there any time—I do not know whether to ask Mr. Logan or Mr. Dodds. I will ask Mr. Logan since he is there, and he can refer to Mr. Dodds. Was there any time when you stopped lending on account of the limit and a refusal came from the government to permit you to increase the amount?—A. In other words, we had loaned up so far as we had any authorization to lend.

Q. And the government refused to allow you to go any further?—A. I am not positive of that. I would be inclined to say yes, that there were times when they felt we had gone far enough.

Q. Could you verify that?—A. I don't know that I could, no.

Q. Well, how would we know, because it must be a matter of record some place?

Mr. Dodds: I don't think we ever reached the limit.

Q. You cannot tell what the limit was at any particular time.—A. I have not got the knowledge here. Of course, I could tell you, but that is a matter which you decided amongst yourselves that you did not wish to give out, but if you want me to assure you that there were limits, yes.

Q. I want you to go further than that and tell us the form in which those limits were imposed and the amount of the limits.

The Chairman: Well, the amount of the limits perhaps might come within the purview of the ruling. He has told you there was always a limit.

Hon. Mr. Ralston: Mr. Chairman, I do not think that the amount of the loan comes within the purview of anything the committee has decided. The committee has decided, as I understand it, that we are not to be permitted to inquire as to the obligation of the government as to any particular time having regard to the value of the grain on hand or held by the banks under hypothecation. That is quite a different thing from what I am suggesting, I submit to you. What I am asking is what the limit was, which does not appear in this Order in Council, and the amount of the limit from time to time.

The Chairman: What you are asking, of course, is the maximum amount of the loan from time to time.

Mr. Howard: No.

The Chairman: As Mr. Vallance has pointed out, a calculation could be made from that.

Hon. Mr. Ralston: I want to know whether this Order in Council means what it says, namely, that it is an unconditional guarantee, or whether a condi-

[Mr. S. H. Logan]

tion was imposed either verbally or in writing, and if so in what way it was imposed.

Mr. DODDS: Mr. Ralston, I think the way this thing was done was, that Mr. McFarland would go to the chairman of the local banks in Winnipeg and say he would need more money. The matter was then referred to the Prime Minister who said that an additional sum might be given. There was never any unlimited amount. We were always bound by the limitations set by the Prime Minister.

Hon. Mr. RALSTON: What were those limits and how were they set? Is there any objection, Mr. Chairman, to giving that?

The CHAIRMAN: Well, if you have not approached the prohibition of the committee you are right on the verge of it, Mr. Ralston. It seems to me it is the consensus of this committee that there should not be divulged to the public the exact figure in connection with this transaction for reasons which have been made plain here.

Hon. Mr. RALSTON: Mr. Chairman, I submit with deference that that is not what the committee have decided at all. There has been one reason that has actuated the committee and that was that they did not want to disclose the amount of wheat on hand so that it might, in any way, injure the market.

The CHAIRMAN: Or the price.

Mr. RALSTON: Or the price, either one. Now, I submit that what I am suggesting, namely, the amount which was fixed from time to time by the government, if such an amount was fixed, of the loan which might be made by the banks, should be given without further reference.

The CHAIRMAN: I submit to you, Mr. Ralston, that if we knew the limit of the credit, anybody who is familiar with the grain trade could calculate within an approximate amount the number of bushels that would be on hand at a given time.

Hon. Mr. RALSTON: Mr. Chairman, your head is generally screwed on all right, but I think that this time, I would submit with deference, you will be some mathematician and have some knowledge of the grain trade, which I cannot imagine, if you could possibly figure out from the fact that the government put a limit on the credit that the bankers might give.

Mr. BOWMAN: That is not the information that Mr. Ralston is asking for. He is asking for the amount of credit from time to time. The point was well covered by Mr. Vallance.

Hon. Mr. RALSTON: It should have been in the Order in Council, I submit. We are talking about millions of dollars.

The CHAIRMAN: I appreciate that and so does the committee.

Hon. Mr. RALSTON: And it seems to me that it should have been in the Order in Council, and if it was imposed in some other way I submit that we have a right to know what the amount is that the government fixed from time to time as the limit of the obligation which it would assume.

Hon. Mr. RHODES: Mr. Chairman, might I suggest to my friend Mr. Ralston that he has it from Mr. Logan that there was a limit imposed at all times. What Mr. Ralston is asking is that the amount of that limit should be disclosed. It may not be precisely on all fours with the question which has already been decided by the committee, but I submit that he is trying to get in the back door, having been excluded from the front, in putting a question of that character. I submit, with all deference, that it is skating rather close on thin ice with respect to the decision which has already been made by the committee.

Mr. IRVINE: Mr. Chairman, the committee made two decisions. I rise to a point of order.

Hon. Mr. RALSTON: I am talking from the point of view of the obligation the government undertook in a letter of the Prime Minister, and I want to find out just how far this government went in the matter of guarantees.

Hon. Mr. RHODES: What my friend wishes to know is how many millions of dollars could the bank have loaned.

Hon. Mr. RALSTON: Quite right.

The CHAIRMAN: Well, if you will read paragraph 4 of Mr. Power's resolution, I would suggest to you, Mr. Ralston, that the question you are now asking is outside the reference.

Mr. POWER: Surely it is open to us to know to what extent they were guaranteed.

The CHAIRMAN: No, that is not what your resolution says:

> and the extent to which the guarantees by the Dominion government to the banks . . . were utilized for the purpose of speculating . . .

Mr. POWER: That is in addition.

The CHAIRMAN: Now you have found out there was no speculation and you are going off on another track.

Mr. POWER: Now, Mr. Chairman, we are just going to the mat on that. You have no right to make any statement of that kind; that is in our judgment, and I submit to you, without any deference, that you have no business to sum up the situation any more than I have, or anybody else. We have not found out there was no speculation. In my mind there was more speculation in this than in any other transaction for years. Do you mean to say that Mr. McFarland, when he was going into that market, was not speculating? He was. He was speculating on behalf of the farmer and the Pool or speculating on behalf of somebody. He did exactly the same for his client as the speculator does for himself. That is what he did. He carried on exactly the same transaction of keeping the price of wheat up to an artificial price by speculating, by manipulating the markets; that is what he did.

The CHAIRMAN: Well, I am not going to enter into any argument with you. I will rule against the question if I must.

Mr. POWER: Let us come back to the point that has been raised. The motion reads:—

> 4. Relations of the chartered banks to the wheat pools, and the extent to which the guarantees by the Dominion government to the banks, of the said pools' grain market account was utilized for the purpose of speculating in wheat on the Winnipeg or Chicago grain pits.

It seems to me that you are doing more than skating on thin ice when you say that we cannot discuss under that the question of to what extent were the loans of the wheat pools guaranteed. Surely it is obvious, it is plain to anybody who reads the motion itself.

The CHAIRMAN: I do not think so. I think you have to read something into that that is not there in order to cover that.

Mr. IRVINE: Mr. Chairman, may I ask one question?

Hon. Mr. RALSTON: I think I have the right to have my question ruled on.

Mr. IRVINE: This committee settled two questions to-day in respect to this question. I wonder whether the Chairman could give us exactly what those questions were, if he has a record of them.

[Mr. S. H. Logan]

The CHAIRMAN: I have no record of them myself. We would have to refer to the minutes, and I think if we do that we will find that this question is included in those two.

Hon. Mr. RALSTON: I would like to ask if the ruling of the chair is that that question cannot be asked, or at least that the information cannot be supplied.

The CHAIRMAN: If you press for a ruling now I will make a ruling, but I would prefer to do this: I would prefer to see the report as to actually what was covered by the two previous votes. You will have that probably by Tuesday; it is getting very late now.

Hon. Mr. RALSTON: Mr. Chairman, it may be that others might not be here. I do not want to press summarily, if there is any injustice being done, but I submit there can be none. I certainly want you to understand this, Mr. Chairman, that I will press for a ruling in the end.

The CHAIRMAN: Well then I will refer it to the committee and the committee can decide the question, if it has not already been decided.

Mr. HOWARD: I heard the questions to-night and I paid special attention, as most of the members did. I understood the reason why you did not want to give the figures out as to the quantity of wheat, but surely when you get this question which Mr. Ralston is asking it is a different thing altogether. Nobody could divide that backwards. It would simply be that at a certain time the government had guaranteed so much money, so many millions of dollars, and that when they got too near the limit Mr. McFarland might think that he would require a whole lot more money than that to support his market and the bankers would, in the ordinary way of banking, ask for an extension of the credit to cover the situation before they could advance the money. I do not see how by disclosing these figures anybody could get the information that we want to avoid divulging.

The CHAIRMAN: Well, it is eleven o'clock now, the House has adjourned. A motion to adjourn is in order.

Hon. Mr. LAPOINTE: Mr. Chairman, what about the proceedings of last Tuesday?

The CHAIRMAN: They will be available, I understand from the clerk, almost immediately.

Hon. Mr. LAPOINTE: Meaning to-morrow?

The CHAIRMAN: Well, I hope so.

Hon. Mr. LAPOINTE: Because the other committees are receiving their proceedings the following day.

The CHAIRMAN: Well, I would like to say this, after Mr. Beatty gave his evidence he asked to read it over and I thought, out of courtesy to him, he should be allowed to read it over before it was printed, and I take the responsibility of directing that Mr. Beatty's evidence be sent to him. If there is any blame attaching to anybody, I assume it.

Hon. Mr. LAPOINTE: I just wanted to know.

Hon. Mr. RALSTON: Could not we determine this question to-night?

Mr. IRVINE: I move we adjourn.

The CHAIRMAN: There is a motion to adjourn. Shall we adjourn?

Mr. MERCIER: Are we waiting only on Mr. Beatty's evidence to complete Tuesday's proceedings?

Hon. Mr. RALSTON: I beg to move that Mr. Dodds or Mr. Logan be asked to produce whatever documents there are in order to indicate the limit prescribed by the government from time to time for these loans.

The CHAIRMAN: There is a motion to adjourn before the chair which I will have to entertain. But I will say this: I will ask Mr. Dodds and Mr. Logan to attend here on Tuesday morning.

Hon. Mr. LAPOINTE: What is the business for Tuesday.

The CHAIRMAN: This business, I suppose; we have not finished this. We will adjourn until Tuesday morning at 11 o'clock.

The Committee adjourned at 11.05 p.m., to meet again Tuesday, March 27, at 11 o'clock a.m.

NOTE: Before leaving Ottawa, the following signed statement was handed in by Mr. McFarland:—

> Mr. J. I. McFarland, general sales manager of the Canadian Co-operative Wheat Producers, in explaining his evidence before the Banking Committee, on the payments on Durum wheat by the Manitoba Pool, stated that he was referring to the initial payment on Durum wheat by the Manitoba Pool, which the Manitoba Pool had made to growers before the Durums were delivered to and paid for by the Central Selling Agency.
>
> The question of final payment could come up only after the 1930 Pool carryover is wound up, providing there is any surplus out of which to make final payment.

(Signed) JOHN I. McFARLAND.

HOUSE OF COMMONS,

March 27, 1934.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Mr. R. B. Hanson in the Chair.

The CHAIRMAN: Gentlemen, you will recall that when Mr. Beatty was on the stand he was asked to file further particulars. He has sent (1) a report of the proceedings of the annual meeting of shareholders, dated May 3, 1933; (2) an extract of minutes of a meeting of the board of directors, dated April 10, 1933, in respect to the loan; (3) a record of the dividends paid from the year 1920 to the year 1932. This information was asked for by one of the members. (4) Statement of the grand total of the payrolls for 1933, and (5) number of employees for 1929 and 1933. I will file these statements. Perhaps I had better read the minutes of the extract of the 10th April, so that the members of the committee will have before them just what that resolution of the board of directors covered:—

> The president submitted an estimate of the financial requirements of the company to the end of the year 1934 which showed that an amount of approximately $60,000,000 would be needed to meet obligations maturing during that period and stated that he had in contemplation a plan to provide the amount required by loans from a syndicate of Canadian banks on the company's notes to mature in five years and to be secured by the pledge of Consolidated Debenture stock, and, he hoped, the guarantee of the Dominion government. After full discussion, the president with the executive committee was authorized to work out the details of a plan on the lines which he had suggested and to report thereon to the board at the May meeting.

Mr. ARTHURS: Would you read the number of employees?

The CHAIRMAN: Yes. They are under two heads, 1929 and 1933, maximum for 1929, 96,500; for 1933, 63,000; minimum for 1929, 70,500; for 1933, 50,000; average for 1929, 83,500; for 1933, 58,000. The only other item that has not been covered by that letter is the question of Mr. Ralston, requiring a statement showing as of May 3, 1933, the amount of consolidated debenture stock outstanding, differentiating the amount held by the public as collateral, and the amount held by the banks as collateral for loans; also showing the amount of debenture stock necessary to cover loans outstanding. I have asked him to send that in, and I have no doubt he will.

Hon. Mr. RALSTON: Mr. Beatty sent me that statement; I have it upstairs. Mr. Beatty sent me a statement, and I presume it is that one, although I have not looked it over.

The CHAIRMAN: I wrote and asked him to send it in. I think it ought to be filed with the Chairman. Now, shall we publish these as addenda to the minutes?

Mr. IRVINE: I move that those not read into the record be published as appendices to the minutes.

The CHAIRMAN: Before proceeding with the orders of the day, I should like to mention that I have a letter from the secretary of the Board of Trade, Mont-

real, written on behalf of the council of the board, in which certain representations are made with regard to proposed amendments to Bill 18. I will not take the trouble to read it, but if any member of the committee desires to see it, he is at liberty to do so. It is signed by J. Stanley Cook, secretary of the board.

Mr. SPENCER: What is the substance of it?

The CHAIRMAN: I have not read it. As a matter of fact, it came to Mr. McEvoy, and he has just handed it to me. They disapprove of certain proposed amendments.

Some Hon. MEMBERS: Read it.

The CHAIRMAN: The letter is dated March 24, 1934, and is addressed to T. L. McEvoy, Esq., Clerk of the Banking and Commerce Committee, House of Commons, Ottawa, and reads as follows:—

> DEAR SIR,—On behalf of the council of this board, I beg to make the following representations with regard to certain amendments proposed to the Bank Act, Bill No. 18: "An Act respecting Banks and Banking."
>
> (1) The proposal that charters of Canadian banks be renewed for five instead of ten years. There is always a certain amount of disruption to trade and commerce when bank charters are being renewed, and the council of this board considers it highly important, in the interest of Canadian business generally, that such revisions should not occur more frequently than necessary. The system whereunder bank charters are revised every ten years has in the main worked most satisfactorily, and there does not seem to be any good reason why the period should be reduced from ten to five years. In this connection, it is noted that banks in Great Britain are granted charters in perpetuity.
>
> (2) With regard to the suggested amendment that no person should be appointed director of a bank who is a director of any trust company, insurance company, investment or loan company, or of any financial institution during public business, the council considers it important that the most capable and successful business men should be available for bank directorships, and the adoption of this amendment would eliminate from the directorate of banks many citizens whose presence on bank boards is of great benefit to the banks and to the business community.
>
> (3) The proposal that dividends of banks should be restricted to not more than 6 per cent per annum. Dividends of Canadian banks have not in the past been unreasonably large, and there has been comparatively little variation in such dividends. The council submits that the proposed dividend limitation should not be applied to banks, which are after all private corporations, whose services to the business community depend upon investment in bank securities being reasonably attractive.
>
> I am to ask that the foregoing representations be presented to your committee.
>
> I am, Dear Sir,
>
> Yours truly,
>
> J. STANLEY COOK,
> *Secretary.*

When we adjourned on Thursday evening, Mr. Ralston moved, at page 141 of No. 2 of the Evidence, "that Mr. Dodds or Mr. Logan be asked to produce whatever documents there are in order to indicate the limit prescribed by the government from time to time for these loans"; and the Clerk has taken that as a notice of motion and incorporated into the agenda the following notice of motion by Mr. Ralston:

> That there be furnished to this committee copies of all correspondance, telegrams, memoranda, etc., interchanged between any member of the

> government and any chartered bank, which set out the limits, if any, imposed and when, by the government, on the amount of cash advances to "Wheat Producers" by the chartered banks concerned under the provisions of the orders in council which guaranteed such advances; and the form in which such limits were imposed.

I suggest to Mr. Ralston that we can get these papers only through an order from the House, as a matter of parliamentary procedure and practice.

Hon. Mr. RALSTON: I bow to your experience, Mr. Chairman.

The CHAIRMAN: The Clerk has prepared a memorandum for me, and I am suggesting it to you, for your consideration, as to whether or not you should press this motion.

Hon. Mr. RALSTON: I thought this committee had power to send for persons, papers, documents, etc.

The CHAIRMAN: Yes, but I am not sure whether we can send for these particular papers. If you will look at Bourinot, 4th edition, at page 470, you will find the following:

> The committee can obtain directly from the officers of a department such papers as the House itself may order; but, in case the papers can be brought down only by address, it is necessary to make a motion on the subject in the House through the Chairman.

And these, I am advised, being papers which "can be brought down only by an Address," must come by way of a motion in the House.

Hon. Mr. RALSTON: Mr. Chairman, I think we are at cross purposes. I am not asking for any departmental documents; I am not asking for documents in the hands of witnesses that have to do with the production of departmental documents.

The CHAIRMAN: Well, it is up to the committee to decide whether this motion should carry or not. My own opinion is against it; as a matter of procedure, the committee will decide the question from the standpoint of public policy.

You will move this resolution, will you, Mr. Ralston, in order to get it before the committee in a concrete form?

Mr. DODDS: I just want to draw your attention to the fact that these documents being produced by the banks will disclose information that has already been refused to the committee. The banks do not care, but we just want to point that out to the committee.

The CHAIRMAN: It is a matter now for the committee. I understand that Mr. Ralston is moving the resolution that I read. The question is on the motion. Does anybody desire to speak on it?

Mr. BOWMAN: Has the matter not already been dealt with? I submit that it has, sir.

The CHAIRMAN: That is another phase of the question.

Mr. BOWMAN: I suggest that it has already been passed upon.

The CHAIRMAN: The committee must take the responsibility.

Motion put and lost.

The CHAIRMAN: When we adjourned on Thursday night, Mr. Logan was on the stand, and I think it would be well for him to resume the stand for further examination.

Mr. DODDS: May I first make a statement?

The CHAIRMAN: Yes. Mr. Dodds would like to make a correction, gentlemen.

Mr. DODDS: Colonel Ralston addressed a question to me on Thursday asking, as I thought, if dealings in futures were contemplated at the time the Prime

Minister wrote his letter on the 20th January 1931. My answer was in the negative. After I had given the answer Mr. Henry T. Ross, the secretary of the Bankers' Association, informed me that he believed Colonel Ralston was reading from the order in council which was passed in September, 1931. I have since seen a copy of the evidence given (Minutes of Proceedings, page 268), and am now convinced that Colonel Ralston was referring to the order in council dated September 12th, 1931 (P.C. 2238) providing for guarantees in favour of Canadian Co-operative Wheat Producers, Limited, and the answer should be changed and made to read "Yes."

By mid-summer, 1931, according to my recollection of Mr. McFarland's evidence, the stocks of physical wheat which he took over at the end of November, 1930, had been practically all sold or converted into futures and this order in council authorized advances for such purpose.

Hon. Mr. Ralston: I just want to straighten this out between Mr. Dodds and myself, if there is any misunderstanding. Mr. Dodds, I understand that reference is made to the order in council. What I was intending to ask—I have not even read the record yet—was whether or not at the time the Prime Minister's letter was written, dealing in futures, was contemplated.

Mr. Dodds: At the time the Prime Minister's letter was written, no. That was just the point—the wording that you read—and I misunderstood. You apparently read from the order in council.

Hon. Mr. Ralston: That is all I want, information as to whether at the time the Prime Minister's letter was written, dealing in futures was contemplated.

The Chairman: That clears it up?

Hon. Mr. Ralston: Yes.

Mr. S. H. Logan, recalled.

Mr. Irvine: This is still in respect of the relations of the banks to the Wheat Pool?

The Chairman: Yes. You need not be limited to that, especially, if you want to ask Mr. Logan any other questions, but we should like to put the evidence in in an orderly manner. Does anybody desire to ask Mr. Logan any further questions with regard to this wheat transaction?

By Hon. Mr. Ralston:

Q. What represented the indebtedness of the Canadian Co-operative Wheat Producers Limited to the bank; that is, were notes given or just advances?—A. No, notes, by the Canadian Co-operative Wheat Producers.

Q. Demand notes?—A. Well, I am not positive of that, Mr. Ralston.

Q. There would be some time when settlements would be made. That is all I have in mind. Would demand notes be given, at the end of each month, covering the advances for that month?—A. Just exactly the routine, I am not positive of. But as cash accumulated, naturally loans would be paid off. As cash accumulated, these notes would turn over, you see. That is, they would be liquidated.

Q. And as cash was advanced, these notes would increase?—A. New notes would be made.

Q. In other words, we can take it that the banks held enough notes from the Canadian Co-operative Wheat Producers, Limited, to cover the full amount of whatever advances have been made?—A. For the full amount of whatever advances have been made.

Q. For net full amount of whatever advances have been made?—A. That would be the gross amount.

Q. I think not, because certain payments have been made?—A. Yes. They ran up and ran down, naturally, you see. They are not paying interest—

Q. For the actual present advances?—A. That is correct.

Q. The bank holds notes of the Canadian Co-operative Wheat Producers?—A. Notes of the Canadian Co-operative Wheat Producers.

Q. I think Mr. Dodds, or somebody else, said the notes are demand notes?—A. Yes, I was not positive.

Q. What is the interest rate?—A. $5\frac{1}{2}$ per cent and they get—where they have a specially large deposit—they get credit, rate of interest of $4\frac{1}{2}$ per cent.

By Mr. Bothwell:

Q. Has this marketing organization, the Canadian Co-operative Wheat Producers, Limited, any assets outside of the wheat with which they are dealing?—A. The Canadian Co-operative?

Q. Yes.—A. I have not seen the recent statement, but I do not suppose they have very much of a surplus.

Q. Is it generally considered an entirely separate organization from the three western wheat pools?—A. Entirely, so far as any of our transactions are concerned.

Q. And so far as the advances that are made by the banks, from time to time, to stabilize the market or deal in wheat futures, it in no way affects the assets of the independent wheat pool?—A. Nothing to do with the wheat pool itself, not in that respect.

Q. I presume these notes which are given to the banks are signed by Mr. McFarland, as manager of the Canadian Co-operative Wheat Producers?—A. Well now, whoever the authorized signing officers of the company are, I just cannot tell you.

By Mr. Spencer:

Q. Mr. Chairman, I understood Mr. Logan to say that on specially large deposits there was a special rate allowed?—A. That is correct.

Q. Would there be a minimum on which you do not allow any interest at all?—A. Well, I think in reality what we do is, on the off-setting balances—I would put it that way—on what off-setting balances there are, they are allowed $4\frac{1}{2}$ per cent. In other words, they are operating on the one hand, and they have a reasonable balance to their credit, and they would be given $4\frac{1}{2}$ per cent interest on the credit balance.

Q. The words you used were "specially large deposits." I was wondering if it ran into hundreds, or thousands, or what?—A. At times they have very important deposits. Naturally, in a big corporation like that, important sums accumulate from day to day. On these sums we allow them $4\frac{1}{2}$ per cent.

By Mr. Jacobs:

Q. Prior to the guarantee of the Dominion Government, I understand that these loans were guaranteed by the three prairie provinces?—A. That is correct.

Q. And when the government, the Dominion government assumed it, it released the provinces from the liability?—A. No, that is not correct.

Q. You have double liability?—A. We have the liability.

Q. So that if the Dominion government fails to pay, you can always call on the provincial governments?

Mr. VALLANCE: Mr. Chairman—

Mr. BOTHWELL: I just want to ask a question in connection with that. I think that answer is misleading.

[Mr. S. H. Logan]

By Mr. Bothwell:

Q. As a matter of fact, the provincial wheat pools have no liability now, in connection with these advances that have been made to the wheat producers? —A. I think that is correct.

Q. And, in turn, the provinces then will have no liability?—A. That is correct; the provinces' liability was liquidated.

The CHAIRMAN: Is that clear, Mr. Jacobs?

By Mr. Vallance:

Q. Mr. Logan, have not there been three stages with the wheat pools; that is to say, at one time the wheat pools financed this entirely through your banks? —A. Correct.

Q. Always maintaining the 15 per cent margin?—A. Correct.

Q. And when that margin was kept the wheat pools were all right. That brings us to the next period, when the provincial government entered, because of the difficulties the pools got into through, if we may use the word, the holding policy; they got into difficulties, and then the dominion government stepped in? —A. That is correct.

Q. And that is the position that they now find themselves in, using only the Wheat Producers, Limited, as the working man, for stabilization?—A. That is correct.

Q. In 1933, that is, the wheat crop year of 1933, the wheat pools reverted to their own financing. In other words, they paddled their own canoe from then on?—A. Yes.

The CHAIRMAN: Are there any other questions; if not, we shall discharge Mr. Logan?

Witness retired.

The CHAIRMAN: Gentlemen, there are other bankers present who may be able to give some information to the committee, if it desired that they be called now. If not, we shall consider consideration of this item closed, so far as these witnesses are concerned. I know these are the only witnesses we have available at the moment; but I shall not close the investigation, if anybody desires to call any other witnesses.

Mr. IRVINE: I understood, Mr. Chairman, that we would be proceeding with another section of the Power resolution.

The CHAIRMAN: Yes, if this is closed, or if it is desired to keep it open, until somebody else is made available. You remember, we took this up on Thursday because Mr. McFarland was available only for that day; but I should not like to close it, if anybody desires to call another witness.

Mr. IRVINE: May I ask, in that connection, if the committee contemplated calling anybody else in regard to the wheat pool. For instance, I think we should have some information about whether or not the present method of marketing wheat should be carried on, the wheat pool being financed by the government. It has been with great reluctance that I have voted against the information required by Mr. Power. I did so because I was afraid it might do some harm to the marketing of our wheat. I understand that to reveal where wheat is, is like saying that Mr. So and So, who is playing poker, holds three aces and a couple of kings. If that is said, of course, betting immediately stops, and that hand is over. Now, I think we ought to have some question asked of some authority on the wheat pool, as to whether or not we should carry on our marketing system in the way it has been carried on—with the assistance of obscurantism, and fear. Are there any other witnesses to be called on this phase?

[Mr. S. H. Logan]

Mr. ERNST: Mr. Chairman, surely it does not lie within the scope of this inquiry to deal with the manner in which wheat should be marketed. It seems to me that we are getting into matters which come within the scope of "Trade and Comerce" and not "Banks and Banking."

Mr. IRVINE: I think it would be relevant to the motion of Mr. Power, because I do not think that we could continue indefinitely to put the support of the government of Canada behind an institution which is rotten at its very core. I do not blame the government for assisting the wheat pool now—I mean the grain trade and this gambling process of the marketing and selling of wheat. I do not blame the government for coming to the assistance of the pool. In fact, I would blame it very much, if it did not. But I think we have the right to say whether it shall carry on the marketing of wheat in the present manner or not.

The CHAIRMAN: Mr. Irvine, may I direct your attention to a bill which was given first reading in the House of Commons yesterday? It seems to me it looks forward to the future of the marketing of wheat.

Mr. IRVINE: There may be something in that.

The CHAIRMAN: It does seem to me that we can safely wait, at all events, to see what that bill proposes. I have not even seen the bill; I do not know what is in it, but I understand it would cover such a transaction as this.

Mr. BOTHWELL: I suggest that we let this matter stand open, until we have had an opportunity to examine the bill introduced yesterday, and there may be other questions which are pertinent to this investigation that may be asked.

The CHAIRMAN: I think that is a very fair suggestion. I think this subject matter should stand over, and if anybody desires to have any witnesses summoned to come and throw further light on the past transaction, it is definitely understood that that right is still open. With that understanding, gentlemen, shall we proceed.

Some Hon. MEMBERS: Yes.

Hon. Mr. LAPOINTE: I did not hear Mr. Irvine very well. I should like to know which institution he said is "utterly rotten?"

Mr. IRVINE: I meant the grain exchange business.

The CHAIRMAN: You are speaking directly now of Winnipeg?

Mr. IRVINE: Gambling in the wheat pits anywhere.

Mr. COOTE: There is just this much to be said in favour of the remarks to which Mr. Irvine has given utterance; this committee, perhaps, has some right to consider whether it is proper that this unconditional guarantee should be continued, and for how long, and just what the effect is going to be in connection with our whole banking situation.

The CHAIRMAN: Is it not the general consensus of opinion that the matter is still open.

Mr. COOTE: I am quite agreeable to that.

The CHAIRMAN: I think that is perfectly fair. Now, gentlemen, in order that we might make progress, in connection with the Power resolution, and to utilize the evidence of the general managers I suggested that they, while here, should be ready to give evidence on item Number 2, of Mr. Power's resolution, which reads as follows:—

> The general policies adopted by the chartered banks to combat the effects of the depression, and what extent the said banks are responsible for the drastic deflation from which the country suffered, and is still suffering.

Mr. LAWSON: Did you say Item No. 2, Mr. Chairman?

[Mr. S. H. Logan]

The CHAIRMAN: Yes. I have asked Mr. Jackson Dodds, the President of the Canadian Bankers' Association, to give evidence on that point. I suggest that we hear him and, afterwards, that we hear Mr. Patterson of the Bank of Nova Scotia. There is, by no means, any limit on the number of witnesses to be heard. I understand it is the intention of certain members of the committee to suggest other witnesses, after the Easter recess. Is it the wish of the committee that we should now call Mr. Dodds.

Agreed.

The CHAIRMAN: Before Mr. Dodds proceeds, I would like to suggest that if any member of the committee desires to call any other witness that the name of the witness be handed to me as chairman of the sub-committee and every consideration will be given to such requests. I anticipate this is wide enough or broad enough to take in a very wide scope.

Mr. GEARY: Mr. Dodds is now going to speak on Clause 2 of the Power resolution.

The CHAIRMAN: Yes.

JACKSON DODDS, called.

The WITNESS: May I say that I am now speaking as general manager of the Bank of Montreal.

It is common knowledge that the depression has been world-wide, and that Canada has suffered along with other countries. It is not, however, generally appreciated that Canada has suffered less than most countries and that in large measure the reason why she has suffered less is due to the strength of her banks and their policies prior to and during the depression.

The conservative policy which the banks followed during the boom period, and the leniency extended and constructive help given to borrowers during the depression which inevitably followed the boom, have contributed largely towards preserving the country from the full impact of the shock suffered elsewhere.

It is perhaps not too much to say that the Royal Commission on Banking and Currency was not biased in favour of the chartered banks. Yet in Chapter V. Section 201, the Commissioners state:

> It has been manifest, from what we have previously written and indeed from much of the information afforded us in the course of our hearings that in so far as the ordinary functions of banking are concerned, the Canadian Banks gave admirable evidence of security, efficiency and convenience. In a time of universal economic difficulty, the Canadian banks have stood firm and have continued to render to the public of the Dominion the same high quality and the same wide variety of service as in the past.

During the period 1926 to 1929 there was a vast economic and financial expansion in Canada, caused partially by bountiful harvests and good world prices, which brought money into the country. In addition, American capital, seeking investment in Canadian industrial enterprises, flowed in. In both cases, the money came to stay, and was welcome. But there was another stream of money as well, of a different character, namely, the proceeds of borrowings in the United States by Federal and Provincial Governments, Municipalities and private corporations, which were subject to repayment. This vast inflow of money facilitated extravagant spending, public and private, encouraged gambling in one form and another on a scale unprecedented in Canada, and for the time being obscured the fact that heavy borrowings outside the country created a source of weakness in Canada's financial structure.

[Mr. Jackson Dodds]

Mr. Power's enquiry seeks to establish what the banks generally did to combat the effects of the depression. By way of reply it may be said that their 3,900 branch managers and their staffs, district superintendents, credit departments, assistant general managers and general managers have in that connection put in more hours of thought and labour during the past four and a half years than has perhaps any other group in the country, and received less thanks for their pains—I should, however, mention that many individuals and corporations have expressed their appreciation of the advice and assistance given to them by their bankers—fortunately there are still such people among us.

Unpopular as the banks have been during the period of deflation, they were even more unpopular during the boom period, when present-day detractors were even louder in their condemnation of the so-called old-fashioned conservatism of the banks in their vain endeavour to hold business expansion and public expenditures within bounds and discourage speculation.

It should be stated here that it is not pretended that the banks made no mistakes; that would be too much to expect of institutions managed by men who do not claim infallibility and who freely admit frailty. Banking is not an exact science by any means, but there are well defined principles to follow, sound economic laws to observe and centuries of banking history and experience to draw upon for guidance. The stability of the banks in Canada indicates that generally their affairs have been conducted along orthodox lines. It may be further claimed that the banks have not been operated solely for the purpose of making profits for shareholders. By way of illustration, the following sentence has been culled from a circular to branch managers of the Bank of Montreal, on the subject of "Call Loans to Brokers and Loans for other than Business Purposes."

> We appreciate the desire and efforts of Managers to extend the bank's connections and increase the bank's earning power, but we know also that we can rely upon their loyal co-operation in carrying out a general policy....based on considerations more important than immediate profits.

The chartered banks did not wait until the depression came to endeavour to minimize its effects, but exercised a restraining hand during the boom period, knowing from experience that the day of reckoning would come and that prevention was more effective than cure.

In his annual address to shareholders in December, 1927, which was published in the papers throughout Canada in accordance with time honoured custom, the president of the Bank of Montreal said:—

> Widespread speculation is no new experience in periods of prosperity. The painfully learned lesson of losses is soon forgotten and a newer generation profits little from the past. Human nature being what it is, admonition is very apt to be futile, but I cannot refrain from expressing my conviction that too great indulgence in speculative ventures is fraught with danger to business stability.

At the same meeting, the general manager said:—

> No good can come of discounting the future too far in advance. That is a tendency to which we as a people are prone, and a symptom of the same over-confidence that got us into trouble in the past. The speculation now so much in evidence, to which your president has referred, is a direct reflection of this tendency. Speculation, like fever, is not a disease but a symptom, and, like many a fever, will probably cure itself. Experience suggests the wisdom of guarding against possible set-backs, whereas over-optimism carries with it the ever-present danger of a rude awakening.

[Mr. Jackson Dodds]

A year later, in December, 1928, about a year before the collapse of the boom, the president of the Bank of Montreal in his published annual address again drew attention to the danger of speculation, as follows:—

> Rampant speculation on the Stock Exchanges, which has persisted over a considerable period, with wide ramifications, is a matter of concern to bankers. I need not tell you that the rise in prices cannot go on forever and that there is a well defined limit to bank loans on stocks. My hope is that reaction may not be sudden or severe.

At the same meeting of our shareholders, the general manager said:—

> The development of the country's resources necessarily involves the issue of new securities, and the activity on the Stock Exchange is in part a reflection of new issues representing promotions, mergers, re-organizations, et cetera, but not all of those have been truly constructive or calculated to benefit the country or the public at large. Good times always produce optimism, but harm is bound to come of over-capitalization and of schemes which discount too far in advance the country's future prosperity. It is not for us to dictate to our borrowers against stocks their policy or the manner in which they should conduct their affairs, but it is our duty as custodians of our depositors' and shareholders' money to keep such loans within bounds when there is, as at present, an element of danger in the situation. There is but one danger—over-optimism. We have suffered from its effects in the past. If we keep our optimism and ambition within prudent bounds, our feet firmly on solid ground, remembering that national wealth can only be created by production, there need be no fear for the future of Canada. Because we are travelling quickly, there is all the more need for travelling carefully.

These are fair examples of utterances of bank presidents and general managers during the boom. By way of illustrating that these public statements were consistent with directions given to branch managers, the following extracts from Bank of Montreal correspondence and circulars are given:—

On the 2nd June, 1927—

> The general manager has instructed me to caution you in connection with our loans to brokers and others secured by stock market collateral. The stock market has had a long and sustained rise in prices, and speculation is wide-spread. Correspondingly, any setback in prices might develop into a serious situation, and you will please continue to carefully scrutinize all collateral held or offered and see that adequate margin is maintained to provide against any contingencies. In the case of loans to private individuals you will, of course, assure yourselves that the borrowers are in a position to meet any calls for additional margin.

On the 15th June, 1927—

> A wave of speculation has grown in increasing proportions during the last twelve months and is far too prevalent to be productive of good. Speculators have been making money in the steadily advancing prices to which stocks have been bid, brokers have made huge profits and the banks have participated to the extent of keeping a considerable amount of funds employed that might otherwise have been idle, so everybody has been happy.
>
> The time has now arrived to take a more serious view of the situation and the first duty of the banks is to bring about a healthier conditions of affairs by placing a curb upon speculative borrowings. From now on we want your office to adopt a more conservative attitude towards brokers' loans. We want you to eliminate from the collateral all stocks

[Mr. Jackson Dodds]

of a speculative nature, without regard to the percentage of margin or rate of interest. Among our present loans are a number of stocks of this nature which we want to see gradually taken out and not re-appear.

You will in all probability lose some business which may appear profitable to you but we want you to recognize there is a larger principle involved than that of profit or volume of business. Act quickly but firmly. Our position is based on our own safety followed by a policy that we believe should react to the benefit of the country at large.

Please discuss this letter with the superintendent, to whom our views were made known at the time of his recent visit to Head Office.

On the 13th March, 1928—

We feel that this expansion of speculative business has gone too far and we would like you to conduct your Call Loan Department in such a way that the total of these loans will show a material reduction each month for the next few months.

On the 30th July, 1928—

We are not at present increasing our call loans in any direction and our policy is not to establish lines of credit for brokers.

On the 22nd November, 1928—

For your information and guidance, we may say that we are not desirous at present of increasing our loans against stocks and bonds; this, with the idea of curbing the tendency of dealers and others to pyramid credits and increase speculation by the public.

On the 16th January, 1929—

While we have stressed deposits, it must not be forgotten that the bank is always ready to consider good loans for commercial and/or farming purposes. As you have previously been advised, we are at the present time discouraging loans for speculative purposes against stock exchange securities; loans, however, for investment purposes, where repayment will not depend entirely on the sale of the securities pledged, will be given careful consideration.

On the 25th March, 1929:

We have in recent months been receiving many applications from individuals for loans against stocks and bonds. This is an outcome of the present fever of speculation and reflects usually a desire to take securities out of brokers' hands, in part perhaps for reasons of prudence, but no doubt also to save one per cent interest. Such applications are unwelcome and most of them are declined. There is in these loans to individuals against securities a special element of risk arising out of the reluctance of such borrowers to sell their collateral, whatever the circumstances. If stocks are high, they think they are going higher; if they are low, they are sure they will recover, and protest against a sacrifice. Brokers, for their own protection, must and do sell their clients out if margins are not maintained, but if banks do that it is resented. We would like you to go very carefully through the list of loans, if any, at your branch, to private individuals against stocks and bonds and see that they are properly margined, and your customers should understand that full margins must be maintained. We do not wish to create alarm, but the circumstances of the day call for more than ordinary caution.

On the 18th September, 1929:

The present period of great commercial and industrial activity in Canada affords employment for a steadily increasing proportion of the

> bank's resources in aiding the production and distribution of goods, wares, and merchandise. These periods come and go. In less active times the requirements of business are not so heavy and the bank has more funds to spare, but at all times the legitimate requirements of business people have the first claim upon our resources and in this it must be borne in mind that the banks derive their powers from the government and are given charters in order that they may perform a useful public service—mainly in two ways: First, to provide a safe place of deposit for the peoples' money, and second, to use that money in facilitating production and commerce. This circular has no reference whatever to borrowing accounts other than those mentioned in the heading ("Call Loans to Brokers—Loans for other than Business Purposes"). We are, as always, glad to supply the legitimate needs of our business customers and we are open for desirable new business connections large or small. That is the traditional attitude of the bank and it is only because there must be no departure from it that we consider it advisable, under the conditions of the moment, to impose restrictions upon other classes of loans, which, if allowed to increase, might limit our ability to do our full duty to the business community.

Whilst there was no concerted action, the foregoing may be taken as illustrative of the steps adopted by the banks even before deflation began, to lessen its effects by resisting the growth of the boom, which it was realized would be the measure of the depression to follow—the pendulum always swinging as far in one direction as in the other.

Since the collapse in the autumn of 1929, our chief efforts have been directed towards protecting depositors and conserving the assets of borrowing clients.

(*a*) By encouraging private borrowers to get their inflated position within manageable figures;

(*b*) By urging upon commercial borrowers the necessity of reducing their costs so as to enable them to weather the period of decreasing business;

(*c*) By carrying numerous customers through the period when their assets securing bank loans shrank to appreciably less than the amount of the relative loans, and in some cases banks are still doing so;

(*d*) Continuing, in spite of the unpopularity of such advice, to impress upon public bodies the necessity for balancing budgets.

(*e*) Carrying farmer borrowers who were unable to repay advances and in many cases granting them additional assistance, it being our long established policy to show first consideration to farmers and other primary producers;

(*f*) Although the depression began in earnest in 1929, the banks did not reduce salaries until two or three years later;

(*g*) In May, 1933, the interest on savings deposits was reduced by one-half of 1 per cent and the benefit of this reduction was passed on to governments, municipalities and to borrowers against high grade securities, and government refunding at a lower interest rate being facilitated thereby. A corresponding or even greater reduction was also made in the interest rate on loans to farmers.

In conclusion, the banks could hardly "combat" the effects of deflation as that would imply active, aggressive action which is not descriptive of the part played in the economic system by the commercial banks.

The banks' first duty is to protect the funds of their depositors, numbering over 4,000,000, and to hold themselves ready to meet any demands that might be made upon them. Their next duty is to borrowers engaged in production and industry generally. Incidentally, banks have a duty to their shareholders, of whom there are about 47,000.

The banks' most important contribution to the country in times of depression and uncertainty is to conduct their affairs in such a manner as to retain the confidence of their depositors. The country is therefore saved from the paralysis of business which would be caused by a panic. In this important respect the records of the Canadian banks has been highly commended in the United States and in Great Britain.

It has been complained that the banks have called in loans and refused to make new advances for business purposes. The truth is that prudent business men have borrowed less, lacking profitable use for money, and the banks have been even more active than usual in competing for safe loaning business, as has been the case in England where the banks have likewise had to find employment for funds in investment in government securities on a scale never before equalled and on a steadily declining basis of yield. Bank statements generally are sufficient evidence that applications for loans for legitimate business requirements would be welcome.

It is the contention of the banks that they did their utmost to curb expansion during the boom, and that following its collapse they have shown a reasonable and helpful attitude towards borrowers generally, notwithstanding any specific instances to the contrary.

The Chairman: Gentlemen, Mr. Dodds is at your disposal.

By Hon. Mr. Euler:

Q. Mr. Dodds, you said that the banks have certain well defined limits in lending money on stocks. I wonder if you would be a little more definite as to these limits, Mr. Dodds?—A. Well, just as soon as loans against stocks begin to interfere with what might be termed sound financing, or if it was apparent we were getting into the realm of speculation, we would then feel there was a definite limit reached and we would have to stop. We have not a definite percentage that we could say was the limit against loans on stocks.

Q. You have no definite percentage that you can give us? For instance, when brokers came to borrow money on stocks, was there any definite limit the bank itself had in connection with the percentage of margin required?—A. No, but as stocks got higher in price, we demanded bigger margins.

Q. Was there any difference so far as the margin required on, say, industrial stocks as compared with mining stocks?—A. Oh, yes, there was a great difference between the two.

Q. Could you make that any more definite, Mr. Dodds?—A. Well, in the case of some proven mines the margins would be less, a great deal less than against some mine that was only in the early stages of being developed.

Q. I suppose that margins fluctuated according to the value of the stock? Are these limits changed now? The depression some say is over and we now have what might be called a rejuvenated stock market, and in the case of brokers getting loans from the bank to what extent is margin required?—A. I will have to find out for you just what margins are required. But, as a matter of fact, our loans against stocks are pretty low and the question has not arisen at the moment, Mr. Euler.

Q. Mr. Dodds, you made a very laudable statement that the banks are not merely after money but that they have the larger interests of the country at heart. You also said that the requirements of regular business have the first call over stocks. Now, I would like to ask whether or not it is true that during the period of depression, say a year ago, many manufacturers—and I have some instances in my mind at the moment—found themselves with an accumulation of manufactured goods on hand against which they had loans from the banks; is the criticism just that the banks showed very little consideration for some of those manufacturers and compelled them to sacrifice their stocks, that they

did not carry them along, as far perhaps as they might have, thereby causing the manufacturers to lose very heavily as a result of the banks forcing them to liquidate those stocks at low prices, and, consequently, not only injuring the manufacturers themselves but also demoralizing the whole business? I might just as well be frank. I am referring particularly to the furniture business. I am given to understand—and I think it is true—that furniture manufacturers were compelled to sacrifice their stocks—throw them on the market; they were compelled, almost, to sell these stocks in order to satisfy the banks, with the result that the prices of furniture, in many instances, were reduced far below the cost price; have you anything to say with regard to that?—A. I would have to deal with each individual case, Mr. Euler, but the banks had no desire whatever to force sales. In some cases it was obvious that there were fresh stocks coming in and the manufacturers would have those stocks at a lower price. In many cases the manufacturers thought it was better to sell than to wait.

Q. Would you say that the charge is true, that the banks did not give as much consideration as should have been shown, especially to manufacturers who, for years, had been profitable customers of the bank; would you say that charge is true?—A. I think the banks showed every consideration, and do show every consideration, to all their customers. As I say, there may be specific instances where we might disagree as to the method adopted.

Q. Would you say there may be exceptions to the general policy?—A. I have said, quite frankly, in the statement that I made, that there might be specific instances. We have, I think I said, 3,900 branch managers all over the country. We do our best to train them; we do our best to get them working on what are considered right and proper lines, but amongst some of them we are bound to have young men who have made what they think is a bad loan and who rush in to try to collect it before head office know what is happening, but when we do hear of such a case we go into it very carefully and try to straighten it out.

Q. As a matter of fact, do the branch managers have any great authority in making those loans? It is not the usual thing to have them referred to the head office?—A. You could not run a bank, Mr. Euler, by having every loan referred to head office.

Q. In a general way is it not true?—A. In a general way it is quite untrue.

By the Chairman:

Q. Before you leave that phase of it, Mr. Dodds, might I ask you on behalf of the committee to elaborate the system under which loans are made?—A. The system under which loans are made generally by banks in Canada is this: As you know, the customer goes into the branch bank and applies for a loan; he gives the branch manager all the information which is pertinent to the matter. Depending on the size of the place and, of course, the ability of the manager to carry on his business successfully, managers are given various limits up to which they can lend direct to the customer without any reference at all. Over that amount, in the different districts in Canada, the matter has to be referred to the superintendents; up to a certain figure those superintendents have similar authority. Above the superintendents are Assistant General Managers scattered throughout the country and some in head office. These men are given authority to authorize advances up to a certain figure, and finally the loans go to head office; the Assistant General Managers deal with them up to a certain figure, and over and above that they are dealt with by the General Managers and then placed before the Board.

By Mr. Spencer:

Q. May I ask if the limit of some branch managers is as low as $500?—A. Yes, in some country places.

Q. Or less?—A. I do not know of any less; we have none less. But the average man in the country that wants the sum of $500 is quite content to wait a day or so.

Mr. Coote: There is no use in him being anything else but content, if the bank wishes.

The Witness: No, I quite agree.

By Mr. Irvine:

Q. Mr. Chairman, I should like to ask Mr. Dodds a few questions. May I say just before I proceed with my questions, Mr. Chairman, that I have not the slightest idea but that the banks in Canada are as efficient as Mr. Dodds has stated in his preliminary statement. I would be very much surprised to find that there had been anything illegally done, or anything improperly done. Any questions that I desire to ask will be directed against the whole system which the banks are employing. I understand, Mr. Dodds, that you are the president of the Bank of Montreal?—A. I wish I were. I might not be here if I were.

Q. You are general manager?—A. General manager.

Q. And president of the Bankers' Association. Can you state authoritatively, on matters of general banking policy in Canada, in your capacity as president of the Bankers' Association?—A. I think I can answer just as well as general manager of the Bank of Montreal; and I will endeavour to answer, to the best of my ability, all questions. The Canadian Bankers' Association is hardly one that lays down the policy for all the banks.

Q. Well, I understand it would not be absolutely rigid; but am I right in assuming that the Bankers' Association does endeavour to promote, as far as possible, unified banking policies for the Dominion?—A. I do not think that is a fair statement. I think you will be given a statement of what the Canadian Bankers' Association can do.

Q. Well, if you have that statement, I should like to know just what the objective of the Bankers' Association really is?—A. Mr. Ross, have you a statement as to the powers of the Canadian Bankers' Association?

Mr. Ross: Yes. The powers of the Canadian Bankers' Association are set forth in the statutes of 1900. I think the Bankers' Association has endeavoured to keep within the limits of those powers. I cannot recall, at the moment, the main outlines.

Mr. Irvine: There is no suggestion in my question that the bankers have exceeded the powers. I just wanted to know what they have to organize for.

Mr. Ross: I can perhaps find the statute.

The Witness: Section 5:

> The objects and powers of the Association shall be to promote generally the interests and efficiency of banks and bank officers and the education and training of those contemplating employment in banks, and for such purposes, among other means, to arrange for lectures, discussions, competitive papers and examinations on commercial law and banking, and to acquire, publish and carry on the "Journal of the Canadian Bankers' Association."

The Chairman: May I cite the statute? It is 63-64 Victoria, Chapter 93, passed 7th July, 1900, an Act to incorporate the Canadian Bankers' Association. The objects and powers of the Association are to be found in section 5, which Mr. Dodds read.

[Mr. Jackson Dodds]

By Mr. Irvine:

Q. Well Mr. Chairman, I do not desire to make an issue of that. I merely wanted to be sure that questions involving general banking policy could be answered, authoritatively, by the witness in his capacity as president of the Canadian Bankers' Association. If he cannot do that, we will take him as the general manager of the Bank of Montreal?—A. Well, I am here to answer what questions I can, and I will answer them, as general manager of the Bank of Montreal?

Q. In your opinion, sir, is there now a depression? I do not want that question to be taken as a facetious one, Mr. Chairman. I desire to get a bankers' viewpoint of the present economic situation.

The CHAIRMAN: I do not think anyone is taking it as facetious; most people would think it was obvious.

The WITNESS: Yes, I would say there was.

By Mr. Irvine:

Q. What, in your opinion, is a depression? Of what does it consist; what are its characteristics, from a banker's point of view.

Mr. JACOBS: Is it in the public interest that the witness should answer this question?

The WITNESS: You want me to give a definition of depression?

By Mr. Irvine:

Q. I will tell you what I am trying to get, but I may not get what I want. Take a workingman, for instance, when he has no food in the cupboard, and cannot buy shoes for his children; he knows there is a depression. How does a banker know there is a depression?—A. The bankers know by the number of people in the country who have no work; and business is at a low ebb, and there is general—I was even going to say—depression.

Q. That is knowledge you get from the newspapers. How do you get a knowledge, from the banking business? How does it manifest itself insofar as the banker is concerned?—A. We see a falling off in turnover in business, a large drop in prices, and lack of interest, generally, in business.

Mr. LAWSON: A curtailment of small deposits?

The WITNESS: Loans go down, people do not want to use money, and deposits go down, gradually.

By Mr. Irvine:

Q. There is no question then, even in the banker's mind, that there is no lack of wealth in Canada at the present moment?—A. The bankers have money to loan.

Q. Well, I am not talking of wealth in money. I mean poverty to a nation must surely be lack of wealth, lack of goods, lack of food, lack of clothing, lack of shelter, lack of commodities?—A. Yes.

Q. Lack of services? Do you think there is any lack of these things in Canada?—A. There is apparently plenty of those things.

Q. Plenty of those things. You agree, I presume, that if there is not plenty, we have the potential power and resources to make plenty?—A. Well, the plenty is there, in many cases.

Q. I think that is true in actual fact; but in addition to that, with our resources and with our army of unemployed at work and with a sturdy banking system behind them, we could make more, in that way. In other words, would you agree that we can, as a people, consume advantageously more of the wealth than we are now doing?

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Mr. MacMillan: Do you mean eat money?

Mr. Irvine: Whoever said that wealth was money; who to-day is holding that asinine view?

The Chairman: The question is a perfectly proper one.

By Mr. Irvine:

Q. I am trying to get at this as basically as possible. I want to know if we have a depression now. The witness says we have. He has told us how the banker discovered that there was a depression. I am now getting at what brought it here, and I am trying to arrive at that by a process of elimination. He says there is plenty of wealth, plenty of goods, and, with plenty of resources, we can make more. Well then, the question is, is it because of the incapacity of the Canadian peoples' stomach, and backs, to use these goods within the last few years that we have this depression?—A. No, I would say it is because we cannot sell these goods.

Q. Why cannot we sell them?—A. Because people outside the country won't buy them.

Q. What about the people inside the country?—A. Well, the people inside the country are also doing business on the basis of what is sold outside the country, and if there is no business going on outside the couutry, that is, if we are not doing an international trade, business must fall off within the country.

Q. That is not really true. Let me put it this way—Mr. Chairman, I think that is a partial mistake in viewpoint. I am not going to argue with the witness—

The Chairman: You agree to differ?

Mr. Irvine: Well, I do not agree with that viewpoint entirely. I agree there is such a thing as international trade, but that the people of Canada cannot have bread while we have thousands of bushels of wheat, unless we can sell that wheat to Europe, is an insane view to my way of thinking.

The Witness: I never said that the people of Canada should not have bread. I said the reverse, pardon me.

By Mr. Irvine:

Q. The implication is there?—A. No, it is not.

Q. Excuse me. You say we are conducting business in Canada on the basis of doing business internationally, and if we cannot sell internationally, we cannot sell to our own people, which means if we cannot sell wheat in Europe, or in Britain, then we cannot sell wheat in Canada. Doesn't it mean that?—A. If we cannot sell wheat outside the country, we cannot do a whole lot of other things, apart from selling wheat. If we can sell the wheat, the money that comes from wheat, and goes to the farmer, will be spent on all sorts of things.

Q. Take boots and shoes, or anything else.—A. Anything else you like.

Q. I agree. I am not going to argue on that. I disagree with your viewpoint and cannot see why we cannot sell boots in Canada for Canadians, and wheat in Canada for Canadians, even if we sell neither boots, nor wheat, nor anything else, to anybody else anywhere?—A. If you had wheat only, Mr. Irvine, and you could not sell it, you could not trade.

Q. Yes?—A. You would not be able to buy a pair of boots or anything else.

Q. We would not need to do it, if we had boots here. However, I am coming to that point later, and I am going to suggest, sir, that it is your financial system that prevents us from making that exchange. Probably we will be able to settle that point on a common understanding a little bit later. Did your

bank directors or managers know that the depression was coming before the day it arrived?—A. We foresaw signs as I have read, I think, three or four pages, in that regard.

The CHAIRMAN: I think you covered that in your written statement?

By Mr. Irvine:

Q. I just wanted to make sure you meant that.—A. At all events, we saw if things went on in the way they were going, there would be trouble.

Q. You arrived at that conclusion from long experience, I presume, speaking of the banks as an institution?—A. Yes.

Q. I presume it was taken as the natural order of events that a depression would come again, as it had come previously?—A. If the public of Canada, and elsewhere, continued to go on in the way they were going, yes.

Q. Do you know when the first manifestations of the depression became evident to the banks?—A. No, but in 1927 we pointed out that things were going the wrong way; that is, there was too much speculation and so on, and we did our best to check it.

Q. I think you said in your preliminary statement, or quoted in it, a statement from the general manager of the bank, warning against undue optimism in investment and so forth. Apart from that very admirable warning speech, did the bank take any further steps to stem the approaching depression, and if so, what were those steps?—A. Well, I read extracts from a great many letters, and circulars, to show that not only did the general manager and the president of the bank make public statements, but that the management of the bank backed them up by taking action.

Q. Well, I was just wondering if you would give us a little more information on what that action was?—A. I will endeavour to do so, but it was pretty full. We pointed out to our managers and others, that we wanted a more conservative attitude adopted, and profits were the secondary consideration; and that we believed our policy was one which would react to the benefit of the country at large.

Q. You said that profits were the secondary consideration? I again won't argue, but disagree. I have against that the late Sir Edmund Walker's statement which is very illuminating. He said, during the banking inquiry of some eleven years ago, in discussing the relation of banking to other industries:

> I recognize however, selfishness is the basis of its relations, and it is the chief duty of the executive officers of a bank to make dividends for its shareholders.

I agree with him.—A. Well, I do not, Mr. Irvine. That is the chief duty, you say.

Q. This is another case where action speaks louder than words. At any rate, you knew that the depression was coming, and you say you tried to prevent it. It is evident that you were not able to prevent it?—A. That is quite evident.

Q. Well, do not you think it would be wise to endeavour to obtain such powers as will enable you to prevent it the next time it comes?—A. Personally, I do not believe anybody can prevent it. For instance, if you gentlemen make up your mind to go speculating, I do not believe anything—if you are doing business with this one bank—I might say would stop you all collectively from speculating.

Mr. SULLIVAN: Mr. Irvine is speculating on what you are going to say.

Mr. MACMILLAN: He is preparing a speech.

Mr. IRVINE: My friend is speculating on what he thinks Mr. Irvine is speaking about, and he is wrong. At any rate, I do not think that really has

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anything to do with the point, Mr. Chairman. I agree that no man can stop a committee of the House of Commons from doing anything, or saying anything, but that is hardly the point. If my friend has the power to take my feet away, he would know I would not walk. If he had the power, he could do a lot to stop things, if he so desired.

By Mr. Irvine:

Q. Do you think then, before we leave this point of the present depression, that there is danger of over-optimism at this moment?—A. There is always danger of over-optimism of people, but a little optimism won't do any harm. I try to spread some.

Q. Don't you think it would be quite as dangerous to have over-optimism. If people actually think they can pay their debts, is not that over-optimism?—A. From what I know of some people, I would say that was very much so, optimism of the greatest kind.

Q. To many that general policy would be fatal?—A. Delightfully.

Q. You anticipate then, if we continue in the direction that we are now going, with the present economic system, operating on orthodox lines of sound safe money, that another depression would come along in a few years?—A. Well, it is hard to say, because you gentlemen have before you an act to incorporate the Bank of Canada, and I see it is going to "regulate credit and currency in the best interests of the country",—this is just the preamble to Bill 19:

> To regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, insofar as it may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion;

and so far as we can help it do so we will.

Q. I am not interested in whether the witness believes in it or not; I am interested, however, in his presenting it as the only visible means of possibly preventing a recurrence of depressions in future?—A. I did not present it as that.

Q. You presented it as an answer to my question?—A. As an answer to your question, and because I see no reason to discuss something the Parliament is going to take in hand and fix up, sometime or other.

Q. That perhaps is the thing I am getting at, Mr. Dodds, and your answer touches the principle that somebody somewhere has to control credit before any —.—A. Experience with central banks has shown that, despite similar preambles, they have not been very successful in stopping these things.

Q. I am not now saying that the central bank is going to stop it at all, but it has this, at least, a principle by which it may be accomplished. That is what I am saying.—A. I see.

Q. We will then move to another line of inquiry, which will ultimately bear upon the depression which now is, and the depression you say no doubt will come. Would you kindly indicate to the committee—

Mr. Geary: I do not think he said that.

Mr. Irvine: I understood, in answer to my previous question, wherein I asked him specifically if he thought if we continued with the present economic system, the present financial system—the orthdox method of financing—that we would have another depression; and he said that the proposed central bank might prevent it, and then he described its important functions.

The Witness: I did not say it might prevent it. My answer was, no doubt Parliament had before it an act which specified it was going to carry out these things.

[Mr. Jackson Dodds]

By Mr. Irvine:

Q. And from your knowledge of central banks, you indicated to us that you thought it was somewhat doubtful?—A. That is so, yes.

Q. Well then, if it does not do it, then of course we shall have another depression, because there is nothing known, under heaven or earth, to stop it.—A. I see.

Q. Do you agree? I do not want to say anything with which you do not agree?—A. I think, as is always the case, when you get too much over-optimism, you will then have, later on, a depression. As I said, the pendulum swings as far one way as another.

By Mr. Spencer:

Q. May I ask a question right here? I have in my hand the statement made by Sir John Aird, president of the Canadian Bank of Commerce, in which he said at the Annual Meeting, January, 1931, "There is nothing strange or new about this condition, for there is no record of uninterrupted prosperity lasting longer than six years." I should like to ask Mr. Dodds if he agrees with that.—A. I have no desire to make any statement about their length; but I say we do have depressions.

By Mr. Irvine:

Q. Would you be good enough to define, for the benefit of the committee, what money is?—A. No, I do not—

The CHAIRMAN: Let us send for Adam Smith.

Mr. IRVINE: Of course, we are dealing with an economic question. If we cannot find out what money is, Mr. Chairman, how can we ask a question about it.

Mr. BAKER: How are we going to get on with the work of this committee, if we go on like this?

Mr. IRVINE: If Mr. Dodds does not want to answer it, or if the committee do not want me to ask it, why, I cannot get any further with the question.

The CHAIRMAN: You are getting into the realm of theoretic economics.

Mr. IRVINE: Money is not a theoretical thing, sir. It is theoretical for me, but it is not to some other people. Money is a very very practical thing in Canada. I am asking about it. What is it?

The WITNESS: You will find the definition of it in any dictionary. I do not see that you need me to give you the definition.

Mr. IRVINE: I understand, then, that the witness accepts the definition of money as given in the dictionary.

The CHAIRMAN: He has told you where to find a definition.

Mr. IRVINE: I will look it up at lunch time. I do not know what it is, but it will be entertaining to see what the dictionary says it is.

Mr. LAWSON: Let us take it as a medium of exchange.

The WITNESS: That is all right.

By Mr. Irvine:

Q. That is very kind. We have now a suggestion— —A. That will be all right.

Q. —of money as a medium of exchange. That suits me. I do not care what the answer is, because I would like to ask if the witness would say what he regards as the economic function of money.

[Mr. Jackson Dodds]

The CHAIRMAN: Mr. Irvine, I hesitate about stopping you. I know that you are well up on these theoretical matters; I doubt if many members of the committee are, but I should like to call your mind back to the reference.

Mr. IRVINE: Yes, I am keeping an eye on that.

The CHAIRMAN: I hope you are. You seem to be travelling a long way from it.

Mr. BAKER: Are we not here to consider facts, and not theories?

The CHAIRMAN: I rather agree with that observation.

Mr. IRVINE: I am not considering a theory. I wish you to know that we are here discussing and getting evidence on the relation of the general policies adopted by the chartered banks to the depression, what effect it had on the depression and to what extent the said banks are responsible for the drastic deflation from which the country suffered, and is still suffering.

The CHAIRMAN: I suggest to you that the witness' statement was referable particularly to that question.

Mr. IRVINE: Allow me to suggest to you this, sir: While the question I just asked may sound abstract, yet, without its proper answer, I cannot get the relation of the banks to the depression. For instance, if I am told that bankers regard a bank as a safe place to keep money, or, as the speaker said, that the function of the bank is to hide away money that somebody puts in there—

The CHAIRMAN: I do not think he said that.

Mr. BAKER: I do not think he means that is the function of the bank.

The WITNESS: I do not remember saying that money was hidden away.

Mr. IRVINE: For safe keeping, it must be hidden away.

The CHAIRMAN: What he said was, that the primary function of a bank was the safeguarding of the depositors' money.

By Mr. Irvine:

Q. I should like to ask another question along the same line.—A. Yes?

Mr. ERNST: The banks do not make the monetary system. Parliament has made that, so far as this country is concerned. The banks operate within the powers granted by Parliament. What Mr. Irvine is trying to inquire into, is the monetary system. That is not the banks' function, to make a monetary system.

Mr. IRVINE: I agree with Mr. Ernst. That is exactly what I am doing, trying to find out how it operates, and what it does, and how the banks function.

The CHAIRMAN: That is true. If you direct your question along that line, I am sure the witness will answer you.

Mr. IRVINE: If my questions do not always do that, it is due to my inability and inaptness in asking questions.

The CHAIRMAN: What you are trying to do, as I apprehend it, is to lay the ground work.

Mr. IRVINE: Yes. I merely want to split open the banks to see how they work. I am not bringing in any fictitious thing. Money was said, a moment ago, to be a medium of exchange. The next thing I want to know is what it is used for in an economic system?

Mr. ERNST: Is not that a proper inquiry under an investigation into the monetary system. We are dealing with the operation of banks?

By Mr. Irvine:

Q. Let me ask the bankers this: What do they do with money in regard to the economic system in Canada?—A. The money we get in on deposit, we either

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keep some of it in reserve, for special demands or ordinary demands which may come in, or we loan some of it to people to enable them to purchase goods, to manufacture goods, and some we loan to brokers on call. Some we put in government bonds, which brings us in money.

Q. Would you say what was made with the money in the manner in which you have described it, has no relation to industrial and commercial activity?—A. Obviously, we assist in production of goods by loaning money.

Q. There is a direct connection then between the money which you keep in the possession of the banking institution and the industrial and commercial life of the state or the community in which the institution is active. Would you say that there is more money in existence at certain times in Canada than at other times?

The CHAIRMAN: Do you mean by money, currency?

Mr. IRVINE: I mean by money anything that does what money does.

The WITNESS: Obviously, if you take a bank note, or a Dominion government note, if that is what you mean, there are more notes out at some stages than there are at others; is that the answer you want?

By Mr. Irvine:

Q. Well, it is the answer you are giving; I do not want any particular answer, only I would like to know whether there is actually more money in existence in Canada at one time than another, or is there a permanent store the same amount all the way through?

The CHAIRMAN: Are you using money there in the sense of currency?

Mr. IRVINE: I want the witness to say what it is.

Q. Let us take money as a medium of exchange, is there more money as a medium of exchange in Canada at one time than another?—A. Yes.

Q. Then money, would you say, is created and destroyed at somebody's will? That is to say, that money comes into or goes out of existence at the will of somebody?—A. Yes, to some extent. For instance, if you pay a five dollar bank note into your credit at the Bank of Montreal that note would, so to speak, be withdrawn.

Q. Yes, so that if one were to borrow from the bank, would you extend the medium of exchange to that extent if one pays a note back you would withdraw it to that extent?—A. Yes.

Q. How much money, then, of all kinds was there in Canada, according to the knowledge of the banks, in 1926, in 1929, and in 1932?—A. Ample money.

Q. I would like to get those figures. I do not suppose the witness has them in his head.

The CHAIRMAN: I should think the bank returns might help you?

Mr. IRVINE: If I could get them some other time I would be satisfied.

The WITNESS: I think you can get them yourself.

Mr. IRVINE: As of October 31st of each of those years?

The WITNESS: If you have the bank statements and the government statements you can get it for yourself.

Mr. HACKETT: The Macmillan report gives that information.

The CHAIRMAN: Would you indicate the section in the Macmillan report? The Inspector General of the banks has handed me a book entitled "Statistical Contributions to Canadian Economic History" which, I am told, contains all the information you want.

Mr. IRVINE: You are not going to put it in the minutes, are you Mr. Chairman?

The CHAIRMAN: No, I think not. I am told this is the best authority there is along the line you want and is as complete as there is.

[Mr Jackson Dodds]

Mr. Irvine: It is very consoling to know where to get the information.

The Chairman: I will ask the Inspector General to lend it to you. I believe it is in the library.

Mr. Irvine: I will advise then, Mr. Chairman, that all members of this committee proceed to the library after this session to get the information.

The Chairman: Do you think that is a fair statement to make? This witness has not the figures in his head.

Mr. Irvine: I agree.

The Chairman: They can be obtained, and I will ask the Inspector General to dig it out of this tome for you and hand in a statement later.

Mr. Irvine: If he will be kind enough to give us that statement it will be satisfactory to me.

The Chairman: Name the years again.

Mr. Irvine: In 1926, 1929, and 1932.

The Chairman: October 31, 1926, 1929, and 1932.

Mr. White (*Mount Royal*): Mr. Chairman, those figures will all be found in the MacMillan commission report, legal tender, bank notes and coin.

By Mr. Irvine:

Q. I was just going to follow that, Mr. Dodds, by asking how much of those totals in any one year represented depositors savings, how much represented bank notes, how much represented Dominion notes, and how much of it was gold, silver, and copper coins, how much was financial credit issued by the banks. I will be satisfied if I can get that information. I would like to know how much of the total amount of the money in the hands of the banks in those years was savings deposits, and how much represented loans made by the banks.

The Chairman: Would you tell the Inspector General of the banks just what you do want and he will get the information for you if he can.

Mr. Irvine: I think the Inspector General possibly got my question.

Mr. Tompkins: Mr. Chairman, if I might suggest it, if the hon. gentleman will allow me to speak to him about it we might save time and possibly make progress, and I will be very glad to get whatever he desires.

Mr. Irvine: Well, as long as I get it.

Mr. Geary: Do you want that amount broken up?

Mr. Irvine: I have no hesitation, Mr. Chairman, in revealing to the witness exactly what I am trying to get at. He says in his speech here—and in other places—that the banks lend only the money of depositors. I want, therefore, to get the amount of depositors' money to see if it tallies with what the bankers did loan.

The Witness: I did not say "only." I do not think I said the banks lend only the money of depositors. It has some of its capital; it has its reserves, and bank notes which it is permitted to issue.

Q. Well, I was basing the question there on a speech which I think you made at Winnipeg, and you make no qualifications there at all, if you were reported correctly. So that we may take it, therefore, that the banks do not limit their lending to the depositors' money?—A. Well I have just explained that the banks also have their capital, and their reserve, and the bank notes that they are permitted to issue.

By Hon. Mr. Morand:

Q. Do they ever exceed that?—A. The banks can borrow under the Finance Act, too.

[Mr. Jackson Dodds]

By Mr. Irvine:

Q. In any case, your depositors' savings accounts are very limited whereas the capacity to make loans probably has no limit at all?—A. Well, we are only permitted to borrow under the Finance Act up to a certain amount, and before we are able to borrow at all we have to apply for the loans and the Finance Minister and Treasury Board can authorize the loans or not as they see fit.

Q. Well, if the depositors' money only is loaned and the depositors do not create money— —A. I have just said twice—

Q. Of course, money would be static, you would never be able to increase it at any time?—A. Well, I have said we also have our capital, and reserves, and our note issue, and that we can borrow under the Finance Act.

Q. So that you can lend your capital, and you can lend your reserves, and you can borrow under the Finance Act on other securities and lend much more than the depositors' money.—A. We can lend in the crop moving season an additional 15 per cent over and above our ordinary circulation.

Mr. IRVINE: You see then, Mr. Chairman, the great need for us to get some idea of just how much money there is on savings deposit in Canada in any one of these years.

The CHAIRMAN: Well, that is a matter of record.

The WITNESS: It is in every statement of every bank for years; it is in the government statement every month, if you really want to dig it out.

By Mr. Irvine:

Q. I think in your reports the deposits are not distinguished from savings deposits and deposits made when a loan is guaranteed.—A. Well, a deposit is a deposit.

Q. What relation then do those deposits hold to the amount that is loaned in your report?—A. Well, these are the moneys we lend, some of them.

Q. Exactly, that is what I was saying, you do not distinguish?—A. I agree with you, plus—

Q. Would you say anyway, apart from the little discussion on the deposit question, that there was less money in Canada, in 1932, than there was in 1929?—A. There was less money issued in 1932, I would say. You referred to my Winnipeg speech. In Winnipeg I said:—

> Applying this statement to the Canadian situation, it will be found that in each of the past ten years savings deposits were larger than all loans in Canada, call loans excepted, even in the year 1929.

Q. That is not the section that I refer to, sir, but it is all right.—A. I am sorry.

Q. You agree that there was less money in Canada in 1932 than in 1929. What became of the difference?—A. There was less trading, and circulation decreased.

Q. That would, of course, mean that deflation began, and was instituted by a bankers' policy?—A. I do not know where you get that idea from. That is your statement not mine.

Q. You disagree with that; I mean you disagree with the statement that I have just made?—A. I have told you, if you remember, that in the year 1927 it came to us that people were speculating and we put a check on it.

Q. Yes. Well, that is another way of saying that very same thing,—you put a check on it. I say you put deflation on. I will call it "check" if you like.—A. Well then, if you will tell me where you come in between deflation and inflation.

Q. Yes, I can give you my idea of that; if I were in the witness box, I would gladly do it.

[Mr. Jackson Dodds]

Mr. JACOBS: In the meantime, Mr. Chairman, I would suggest that we adjourn.

The CHAIRMAN: Let us go on till one o'clock.

Mr. IRVINE: I can understand why Mr. Jacobs wants to adjourn. Nobody is stopping him from leaving.

Mr. JACOBS: No, but this is too much for my weak head.

Mr. IRVINE: I would expect that, too.

The CHAIRMAN: Let us proceed till one o'clock.

Mr. IRVINE: I do not want to go on now but I shall take it up again when you resume.

The CHAIRMAN: I sympathize with you, Mr. Jacobs, but do you not think we ought to utilize those ten minues? I think Mr. Irvine will soon be through.

Mr. IRVINE: I will not be through for another half hour, Mr. Chairman.

Mr. JACOBS: Certainly we will not finish at one o'clock.

The CHAIRMAN: No, we will not and probably not at six. We will probably have to meet again at eight o'clock.

By Mr. Irvine:

Q. Before this interruption, Mr. Chairman, I was trying to get the witness to indicate to us what became of the money which was in existence in 1929 but which, somehow or other, was not in existence in 1932, and he indicated, I think, that the bankers began to check the outflow of credit and, I presume, to call in their loans to some extent.—A. Yes, and I was most careful to say to this committee that we did that for certain reasons: That we have continually and continuously been ready to lend money for the commercial business of the country.

Q. Yes. Well, I am not suggesting that it was not done very judiciously, and that it was not done in the best interests of the country. I just wanted to get the information so that we may very shortly see that the banks in Canada did curtail credits about the time of the stock market crash which probably marks the actual approach— —A. No, I will not accept that. What I said to you was that we started in 1927 to curtail loans, the money from which was being used for speculative purposes, but that we had continually and continuously provided money for the carrying on of the real business of the country.

Q. Well, sir, I did not go so far as to say that you did not provide money for the legitimate business of the country?—A. No, but you were trying, apparently, to pin me down to one point which I do not accept.

By Mr. Ernst:

Q. Could not the whole thing be summed up by saying that you were at one time extending credit and later you began to retard credit?—A. For certain purposes, to put a stop to speculation.

Mr. IRVINE: I think, Mr. Chairman, in this connection, if I could get the actual figures that I asked for some time ago, we would see just how much credits had been curtailed by the banks at that time and would, therefore, be in a position to know what effect it would have on bringing the depression about. Let me ask the witness this question: What effect would reducing credit have upon prices?

The CHAIRMAN: Would you repeat that question, please?

By Mr. Irvine:

Q. What effect would a person expect the reduction of credit would have on prices?—A. What a banker hoped. If you are referring to what we have been talking about, the banks, in 1927, put the brakes on. What we assume would happen is, that if the money was not available for speculation, if the banks declined to go on, that there would be some check on speculation.

[Mr. Jackson Dodds]

Q. Yes, but may I follow that up, Mr. Dodds, and say that the banks when they have loaned money for speculation cannot prevent that money from being in circulation and affecting the whole price level, so that if they hold back that money, then that will affect the price level in the opposite direction whether it is their desire to do so or not, is that not so?—A. I do not follow that. What we did was, the advances for the purposes of speculating—if we might use that word—on the stock exchange were encroaching on the needs of our commercial customers, therefore, we said we would lend no more money for that sort of thing because we had to look after our commercial customers; that was away back in 1927.

Q. If you curtail credit do you agree that it would immediately, or very shortly, be reflected in lower prices?—A. So that we would have the money available for commercial business and let that go on in its normal way, we curtailed the credit for speculating on the stock exchange.

Q. And that would have an effect on prices and goods generally, would it not?—A. That is a matter of theory.

Q. Well, as a matter of fact what happened after that, did prices drop or did they not?—A. I do not think they did, at that time.

Q. Well, there is a necessity, Mr. Chairman, to get the figures, and the date when the prices started to drop, and compare them as of the date the banks' credits started to be curtailed?—A. You will find that 1927 prices continued to go up.

Q. But after 1927?—A. Well, I have been talking about when we started to curtail, which was what you asked me, I think.

Q. Well, you started to curtail in 1927?—A. Yes.

Q. I must fix that date?—A. I will give you the exact date.

Q. Perhaps in a few moments we will get to a specific instance where we would have to have that information. You would not admit then would you, Mr. Dodds, that by the curtailing of credits, through the pressure of economic necessity, prices were affected?—A. The bank was not under any pressure at the time. As I have recited to you fully, the bank felt that this speculation had gone far enough and that it should endeavour to put a check on it. There was not any pressure put on the bank, the bank did it of its own free will.

Q. It was, however, in the sense that you were inspired by the necessity of having to do it later?—A. That is not pressure, is it?

Q. I would say that was intelligent pressure.

Mr. Hackett: Foresight.

By Mr. Irvine:

Q. Call it what you like. Let me ask this further question: Do you think there is enough money in circulation in Canada now to do what money should do?—A. Well, what should money do? You have not told me that.

Q. You told me, sir, that money should be used for the exchange of goods. —A. Yes. There is enough money in circulation to-day to provide for the goods that are being exchanged.

Q. I did not get that, Mr. Dodds.—A. There is enough money in circulation to-day to provide for the goods that are being exchanged.

Q. Nobody would ever question that, that is to say, if the exchanges were made yesterday then it is presumed there was enough money— —A. Just what is your question?

Q. My question is, is there enough money in circulation in Canada to facilitate the exchange of the goods produced in Canada and which could be consumed by the Canadian people in Canada?—A. I have said that there is enough money to move the goods that are moving, and if there are some goods moving you would find there would be enough money to move them.

[Mr. Jackson Dodds]

Q. Did you ever see goods move before money moved them?—A. Yes I have very often. I have moved goods into my house before the bill for them has got to me.

Q. Yes, but you do not mean to give that as a serious answer?—A. Well I do.

Q. That is merely a matter of credit, which is money. As a matter of fact, money must move any goods that are moving, whether it is in the form of credit or otherwise, must it not?—A. Well, if you say that money is credit—and you said that—it is obvious if the goods are moving, and somebody has bought them, that they have either paid for them or credit is being given.

Q. You say money is not credit?—A. No, I was only saying you said it.

Q. I would like to know what you do say about money, but you would not tell me when I asked the question.

The CHAIRMAN: Mr. Irvine, do you not think that you had better confine yourself, as much as possible, to the immediate matter under consideration?

Mr. IRVINE: Mr. Chairman, I resent that.

The CHAIRMAN: We are not now discussing your eleven year old resolution on financial credit.

Mr. IRVINE: No, but Mr. Chairman, let me say to you that you are not quite fair on that.

The CHAIRMAN: I want to be fair, Mr. Irvine.

Mr. IRVINE: I am sure you do, Mr. Chairman, but the point that I have tried to establish is that there is a relationship between the curtailing of credit and prices and I think the witness has agreed with me. Now I want to know, in order that prices should be brought up to where they were before, or goods sold in Canada, whether there is enough credit, or money—whichever you wish—in circulation to-day?—A. I told you, did I not, Mr. Irvine, that there was enough money to move the goods that were moving, and if there were more goods being moved the money would be available to move them.

Q. I know you told me that, but I have never yet seen goods start to move without there being money to move them.—A. When goods start to move, and people want to buy them, then there is enough money to move them, but if people do not want to buy them and if the money is in the bank or anywhere else, then money won't move them. Every child in the home wants to move goods but they have not got the money to buy them so they don't move.

Q. Exactly, so you are proving my point that goods do not move if there is not enough money to buy them, that is by having enough money in the hands of the consumer.—A. Not only that but the wish to buy.

Q. Naturally.

The CHAIRMAN: Are we not getting into the realm of metaphysics?

Mr. IRVINE: I do not agree there, Mr. Chairman. I think any reasonable man reading the evidence will discover that what I am trying to elicit from the witness is legitimate and to the point of the inquiry, namely, that he already has admitted, and it is true if he did not admit it, that the curtailing of credits will lower the price of goods and if you lower prices of goods you will help the depression. Now, I want to know whether there is sufficient credits, or money, to buy, or move, all the goods that would be consumed by the Canadian people, and which have been made ready for their consumption?

The CHAIRMAN: Mr. Irvine, is not your statement predicated on the assumption that there was a curtailment of commercial credits, and that thesis has not been established, yet, by this witness?

Mr. IRVINE: No, that is not the answer to my question.

[Mr. Jackson Dodds]

The CHAIRMAN: I am asking you a question.

Mr. IRVINE: No, because the question that I am getting at would not be very directly affected by commercial credits.

The CHAIRMAN: Well, I suggest we adjourn till four o'clock.

The committee adjourned at 1 p.m., to resume at 4 p.m.

AFTERNOON SITTING

The committee resumed at four o'clock.

Mr. IRVINE: Mr. Chairman, I want to make it understood before I start asking questions, that I want to be as quick as possible, and I hope I shall not be forced to argue the relevancy of my questions. If you rule them out, I shall not argue with you.

The CHAIRMAN: That is a fair understanding.

By Mr. Irvine:

Q. I want to inquire about the question that we were discussing before the close of the morning session. Mr. Dodds, in your opinion and judgment, how much money should be available in a country, at any time?—A. Enough money should be available to carry on the commerce of the country. That is the only answer I can give to that at the moment.

Q. Would you say that the actual wealth produced in a country, and the capacity of its people to consume, should be factors more important than any other in arriving at that conclusion?—A. Would you repeat that?

Q. Would you say that in arriving at the proper amount of money that should be available in a country at any given time, the amount of wealth to be distributed within that country, and the capacity of the people to consume that wealth, should be factors to be considered, rather than any other?

Mr. ERNST: Is not that a question on the monetary system?

The CHAIRMAN: It is.

Mr. ERNST: I am not out of sympathy with your views.

Mr. IRVINE: If it is ruled out, all right.

The CHAIRMAN: He just asked if those matters to which reference was made were factors?

The WITNESS: Factors, yes.

Mr. IRVINE: Shall I proceed with another question?

The CHAIRMAN: Yes.

By Mr. Irvine:

Q. Have the bankers of Canada been adhering to the gold standard, since 1927?—A. As far as I know we are not on the gold standard; we cannot export gold, if we want to.

Q. Do the bankers still adhere to the standard?—A. We believe, ultimately, we will come back to a gold standard.

Q. Is it fair to ask why you believe that?—A. Because no better system has been found, so far, that I know of.

[Mr. Jackson Dodds]

Q. Would you not say that the price level is a more honest, more scientific, and therefore a more dependable system than that of the gold standard?—A. Well, I believe in the gold standard.

Q. Do you, or do you not, think that a dollar saved by a working man at one time should be exchangeable for the same value of goods at any other time?—A. That is, as far as I know, an impossibility.

Q. It has never been possible under the gold standard, has it?—A. The answer is no, I think, to that.

Q. Do you believe in a thing called sound money?—A. Sound money?

Q. Yes.—A. I certainly do.

Q. What is it?—A. Well, I would say the gold standard working properly, is sound money.

Q. Has Canada been upon sound money during the past two years?—A. Yes.

Q. And we were not on the gold standard then, were we?—A. No.

Q. Then, sound money does not depend upon being on the gold standard? In view of the soundness of Canadian money, would the witness please explain the difference in exchange between Canada and the United States, since 1931?—A. The first part I did not get, sir.

Q. In view of the fact that our money is sound, has been sound, and I believe it is sound, can you explain why the sound money of Canada should be so much at variance with the sound money of the United States, since 1931?—A. There was more to pay than we were getting in, and therefore there was difference between the valuation of the two currencies.

Q. Would you then explain how it is that with the U.S.A. with more gold than at any other time in its history, and Canada definitely off the gold standard, by declaration of order in council, our dollar should now be almost at par?—A. The reason our dollar is now at par is there is practically, as between what we have to pay and what we have to receive, an equality; there is equilibrium, in other words.

Q. I understand, from your viewpoint, the amount of exchange we have to pay at any time has nothing to do with gold; is that right?—A. I do not think that—the gold standard is not working at all now, so it has no particular bearing at the moment.

Q. That may be the reason why our dollar is now nearly at par. May I ask a few questions now in regard to stock exchange financing. How many chartered banks in Canada have branches in the city of New York?—A. Well, the Bank of Montreal, The Canadian Bank of Commerce, The Royal Bank of Canada, the Bank of Nova Scotia, and the Dominion Bank have agencies in New York.

Q. Can you explain the nature of the business done by these agencies in New York?—A. Yes; they act as agents for the bank. They put out our surplus reserves that we must either keep in our vaults without earning any interest at all, or loan the money there, in order that we may earn something with it and the people of Canada thereby benefit.

Q. Have you any idea of the volume of business done by these agencies last year in the city of New York?—A. The volume? I do not know just what you mean by volume.

Q. Well, I mean all the business that was done, all the lending in regard to any sort of enterprise whatsoever.—A. I can give you the net funds abroad of all Canadian banks in 1926, 1927, 1928 and 1929, by reading this statement that I have drawn up if that will help.

Q. Can you give it to me for December 31st, 1928, and June, 1929?—A. I have not those figures here. No doubt they can be given, but I will give you the figures I have, if that will be of any help.

[Mr. Jackson Dodds]

Q. All right, sir.—A. I drew this up on the basis of the possibility of some one suggesting that the chartered banks of Canada have frequently been charged with borrowing under the Finance Act in order to send funds to New York when the call loan rate was high, the chain of reasoning being that because it would have been profitable presumably, to do so, the banks must have done so.

But the facts show that the movement of funds was in quite the opposite direction and the situation is illustrated by the following figures:

	1926	1927	1928	1929
Annual average of monthly averages of the New York call loan renewal rate as reported by Standard Statistics Co.	4.50%	4.06%	6.05%	7.61%

NOTE: The call rate for brokers' loans in Canada was 6 per cent from 1st January, 1926, till 10th June, 1929, when the rate was raised to $6\frac{1}{2}$ per cent.

Figures (in millions of dollars) for Canadian chartered banks as of 31st December:				
Net Funds Abroad..	336.4	300.1	216	134.3

So that our net funds are down in 1929 from 1926 to the amount of roughly $200,000,000.

Q. Well, the figures I have here say that on December 1931, all banks in Canada had on call and short not exceeding 30 days, New York, $292,693,175; whereas in 1929, June 30th, there were $333,285,323, on call and short, and from that time onwards, for some time, it continued to go down until December 31, 1932, there was only $91,491,603. You do not know whether those figures are accurate or not. —A. I cannot tell you. But I have a statement of our figures, if that would be of any help to you.

The CHAIRMAN: Is that all call loans at home and abroad?

Mr. IRVINE: No, all outside of Canada.

The WITNESS: The statement I have shows the Bank of Montreal's assets and liabilities outside of Canada from December, 1925 up to and including the figures for the end of November, 1929,—this period covering the time when money was in such great demand in New York. It shows that our call loans outside Canada in December, 1925, were $151,000,000. Call money in New York at that time was worth about 5·3 per cent. During the period from June, 1928, to mid-summer, 1929, our call loans abroad ranged from $105,000,000 to $159,000,000, although call loan rates abroad ranged from 6 per cent to 12 per cent, and somewhat higher. We gradually withdrew Canadian funds from the New York market during the period when money rates were rising at that centre.

Our net funds abroad, *i.e.*, the amount by which our deposits outside Canada were exceeded by the amount of money which we were employing outside of Canada, or in other words, the amount of funds belonging to Canadians, which we were obliged to employ in readily realizable form outside the country if we were not content to hold it in Canada as additional cash, stood at $116,000,000 in December, 1925. The trend was downward during the succeeding four years, and by November, 1929, our total net funds abroad had been reduced to $32,000,000. In other words, we brought back to Canada $84,000,000.

I have a statement showing the various months and how the figures are made up, and if you like I will pass it to the Clerk to be put in the record.

The CHAIRMAN: That will be all right.

(See appendix "V.")

[Mr. Jackson Dodds]

By Mr. Irvine:

Q. Finally, in connection with the previous question, Mr. Dodds, was the principle of call loans initiated for the purpose of being able to loan on margin? —A. No.

Q. Loan and buy on margin?—A. The principle of call loans was initiated, as far as we are concerned,—the principle of putting money into call loans—was introduced with the idea of having money readily available at any time we required it to use in connection with commercial business in Canada.

Q. The possibilities of being able to turn it over quickly, lends itself to call loan business, rather than to any other available outlet?—A. Well you see you cannot loan money on call in Canada. We have not the big money market here like we have elsewhere.

Q. I am speaking in regard to trade?—A. Yes, quite true. I was going on to say, therefore, we have to put the money somewhere where we can get it readily, if we require it.

Q. What interest did you receive on call money in New York, in 1928 and 1929?—A. I explained that.

Q. Five and a half per cent?—A. What year?

Q. 1928 and 1929.—A. In 1928 and 1929 it ranged from 6 to 12 per cent, and somewhat higher; but all that time during that period, when call money was worth more in New York, when we were getting more for it, we were bringing it steadily back to Canada. And in fact, in those years I have mentioned, we brought back no less than $84,000,000.

Q. I suppose some of the money that you had in New York was used to buy on margin?—A. Well, people who had bought stocks and wanted to carry them, came to the bank and borrowed money. Money, in that sense, was used to finance it.

Q. You have no regulation, I suppose, by means of which the values of stock would be placed on an earning basis?—A. What is that?

Q. On the basis of what they could earn, actually?—A. As I pointed out in connection with the call loans in Canada, I read a letter in which I showed that we did not usually loan money against stocks that were not paying dividends and were speculative. We did not wish to loan money for that purpose at all. In fact, in Canada, we declined to take them and, as you remember, we did not want to see them reappear. In New York we have never lost a dollar on loaning money that way. All the loans were fully margined at all times, and as I say, we have never lost a dollar.

Q. Do you think that Canadian bankers are justified in using Canadian depositors' money, in New York, to finance the "racketeers and jackals," so called, of civilized society while Canadian schools are closed, and Canadian homes suffer, through lack of money?—A. Well, the two things have no bearing on one another. As every one must know, we have to keep a certain amount on reserve, cash or its equivalent on reserve. We cannot loan that money here. We, therefore, have to keep it somewhere where it is readily available. It would not, as you know, and as I know, and as everybody knows, be readily available if we were to loan to schools that were unable to repay. We have to bear in mind the whole time that our depositors' money must be kept safe.

Q. I should like to ask a few questions with regard to consumers' purchasing power as a means of affecting the depression. Would the witness describe the process by which the credits created by the bank reach the consumer?—A. I think it is outside of this question, myself. I do not see what it has to do with it.

Q. I do not want to press it, but, Mr. Chairman, I want to get it. I can indicate perhaps, what I mean. I think most loans in Canada, and in other countries using the same financial system that we do, are made for the purpose of production. and, therefore, can only go to the consumer in the form of wages, or salaries, for having engaged in that production. That is what I wanted the

witness to describe to us?—A. Well, do you mean when we loan money, what happens? We loan money to somebody, and they pay for goods, which, presumably, the consumer gets. So they put the money out in wages, and the wage earner spends the money, and so on.

Q. Then, I want to ask if you think that the money obtained by workers in an industry, say any industry you like, in the form of wages and salaries, buys the entire output of the industry; can it do it?—A. I do not know that the money we happen to loan to a leather man, if I understand you correctly, goes to the people in the industry, so that the people in the industry buy the whole of the leather products. Is that what you are getting at?

Q. Suppose a boot and shoe factory puts out a million pairs of boots next year, and it pays the ordinary wages to its employees, and salaries to its officials, and so on, would the monies thus paid out be sufficient to buy all the million pairs of boots and shoes made by that factory?—A. What about the buildings and everything else that have to be paid for?

Q. Exactly. It cannot be done then, can it? If there is not enough money paid out for them to buy the boots where will it be paid out?—A. Well, I think that is away out of the present subject matter.

Q. If you think so, I will stop. I will pass on. Do the banks of Canada, then, ever make loans for consumptive purposes?

Mr. MacMillan: Do you mean internal consumption?

The Witness: I do not know what you mean. Explain what you mean.

By Mr. Irvine:

Q. Do you ever lend money to people to buy goods with?—A. Of course.

Q. Would you say that the money that is loaned to buy goods would consitute the major portion of the loans made by the banks of Canada?—A. We lend money in the ordinary sense to buy raw materials, to pay wages—

Q. Exactly. That is what I think. That is not for consumptive purposes; that is for production purposes?—A. I was telling you what we do and, therefore, it follows, I assume, it is not all for consumptive purposes.

Q. What I wanted to be sure of was that it was the general method. I am not even criticizing. Information is all I am asking?—A. Yes. You just want to find out.

Q. I do not know that I need to pursue that question, since it was manifest that it was away off the point, Mr. Chairman, and out of order, though if I had time I would like to show you how it was in order. But we will do that some other time. Have the bankers of Canada given any thought to the problem of getting money into the pockets of consumers sufficient to buy the output of goods in Canada?—A. The banks have been so busy running their ordinary business in the last four years that they have not got down to a lot of these theoretical things at all.

Q. I just want to say, Mr. Chairman, that it is not theoretical to find out how to move the goods sitting on the shelves of the warehouses in Montreal into the bellies and under the feet of the people of Canada; that is not a theoretical question; it is a very, very practical question.

Mr. Ernst: The point is whether this is the place to find out the answer to your question.

Mr. Irvine: If this is not the place to find out there is not any place where it can be found out. We are enquiring into the banking system, and I am forming the relatively fair question as to what the banks have done and might do to try to alleviate the depression, or give us prosperity. I am suggesting, Mr. Chairman, that the best way to get prosperity is to try to get money into the pockets of consumers in order to buy goods.

[Mr. Jackson Dodds]

The WITNESS: Yes, but unless the consumers want to buy the goods what is the good of having the money there. There is money in a lot of these gentlemen's pockets here, but if they do not want to buy a thing they will not buy it; and that is the end of it.

By Mr. Irvine:

Q. Now, that is theoretical?—A. It is practical. It is essentially practical.

Q. I do not desire to enter into theory at all, Mr. Chairman. Let me ask this: can you explain this to the committee—how the bankers of Canada, while holding to a gold standard theory, and financing production only—how they propose to get the necessary increase of purchasing power to the consumers, because they are not getting it now?—A. My answer is, I cannot tell you.

Q. Did you ever hear of the Douglas proposals in this regard?—A. Yes, and I believe that everyone had an opportunity of expressing views upon the Douglas proposal to the Royal Commission on banking; but I do not see that that august body seemed to have paid much attention to it, and thought it not worth while to go at any great length into it after it was represented to them. I have paid no further attention to it since I saw that it did not interest them.

Q. Would you oppose a proposal to issue currency and credit for internal use based on the aggregate wealth produced in Canada from year to year, and to use gold exclusively for international dealings?—A. I certainly would. But give me that question again.

Q. Would you oppose a proposal to issue currency and credit for internal use?—A. We have currency and credit for internal use.

Q. On the basis of the aggregate wealth produced in Canada from year to year, and to use gold exclusively for international dealings?—A. Yes, I am opposed to that.

Q. Why?—A. Because with regard to that, if you are going to base something on that, it would probably result in inflation, and I am against anything of an inflationary nature, in the ordinary way.

Q. Again, I am not arguing, Mr. Chairman. Just a few questions on debts, and then I am through—maybe five minutes more or less. Is it possible by the present system to carry on without both individuals and governments going into debt?—A. If you want to carry on business, there are always people that will go into debt. They borrow the money in order to enable them to do all the things we are talking about. So that people are constantly going into debt, and unless people go into debt, generally speaking, I think that the business of the country —our business at all events—won't be very good, and I do not think the business of the rest of the country will be.

Q. I am glad that you pointed that out, because afterwards we would have to find out what the banks are there for?—A. That is why I answered that way.

Q. The question is that it is impossible for either individuals, or governments, to carry on business in this country, to-day, without going into debt?—A. No, I think that whilst they have to spend money—governments and so on—it is not necessary for them to keep on going into debt; they should balance their budgets in some way and keep from going further into debt.

Q. Then, of course, the next question is, if the governments always balance their budgets, and families always balance their budgets, what would the banks be doing?—A. They would be lending money against goods moving around.

Q. You cannot lend money, can you, without creating debts?—A. You cannot; no.

Q. No. I thought not. What is the amount of the international debt to-day, do you know?—A. No.

Q. Have you any idea of the amount of debt, private and public, in Canada?—A. That is a matter of public record. It can easily be found for you, I am sure.

[Mr. Jackson Dodds]

Q. The public record, I might suggest, is not very accurate. For instance, we are only guessing at private debts, and not any too sure about the public ones, apparently. But let me ask this question: we can, I suppose, get the figures of the debts. It will be admitted that we have a very high debt. Let me ask this, suppose we stopped borrowing from this moment and balanced our budgets—both private and public budgets, lived within our means entirely, did not pay any interest on the principal of debt now hanging over us, say for the next twenty years—what would our total debts public and private, be then, supposing they are 18 billions now, as I think they are?—A. You tell me, I could not tell you.

Q. You could very easily. At 5 per cent interest, without compounding, they would be 36 billions. Now, in twenty years, without borrowing any more at all, do you believe we can pay these debts?—A. I believe we can pay our debts in the course of time, yes, if people do as I say, balance their budgets.

Q. I was trying to assume that we did that, Mr. Chairman?—A. It is just an assumption, so far, and we are a long way from it.

Q. We will be a further way from paying them still, if we do not. My point is that debts create more debts. They are reproductive. They reproduce faster than rabbits?—A. That is going some.

Q. Yes, it is. Let me ask this question, in that connection, and that will probably finish what I have to ask: would you be prepared, as a banker, to accept the responsibility that, if we followed the bankers' advice and retained the present bankers' system of finance, the system will provide ultimately for its own liquidation?—A. I do not propose to go into liquidation. As there always have been, there will be uses for such people as bankers.

Q. Quite so. I am not disputing that. Do you agree that the deflation which the bankers, probably compelled by circumstances, carried out during the last few years has had the effect, through the lowering of prices, of largely increasing the debts, say, of farmers?—A. You assume so much. You assume that the banks started in to deflate the country, as you call it. I do not know where you get that notion.

Q. I may say, Mr. Chairman, that the figures which I tried to get, earlier in the day, but were not available at that time, would amply justify my statement that deflation took place. I might say that Mr. Spencer has the figures, and will put them on record when he questions the witness; and that will indicate—I am not assuming anything—that deflation took place; and I am not saying it should not have taken place under the system. In the opinion of the witness, would it not be just to so arrange matters that a bushel of wheat would pay the same amount of debt, in 1934, as it did, in 1929?—A. Well, you ask a question like that about a bushel of wheat. One year a farmer is going to have thirty bushels of wheat and the next year he might have ten bushels of wheat, and he will do the same amount of work in each year. Am I to understand that you think the man should be able to buy three times as much one year, when he is being blessed with a bountiful harvest, and lots of rain, and no pests? Am I to assume that you think that same bushel of wheat should buy the same amount of goods? One year he would be able to buy three and the next year one.

Q. No. My question is directed to you, sir, on the basis of the fact that we must, or should, have some control of finance, and we have not any such control? —A. No. That is exactly it; we have not. Neither have we any control of how much wheat a farmer will grow, and, therefore, you can have no control on how much his spending power is going to be.

Q. I do not like to argue, but I think we can afford to set aside that objection, and ask the question this way: is a bushel of wheat not worth a bushel of wheat, at any time, or should it not be? Why should it be worth so much more, to-day, and less, to-morrow?—A. A bushel of wheat is worth a bushel of wheat, but it will not buy the same thing always.

[Mr. Jackson Dodds]

Q. That is the point I am getting at?—A. I realize that.

Q. And is not the reason why that is so, in many cases, the fact that the monetary system has been altered—that values have been altered.

The CHAIRMAN: Price levels have gone down.

Mr. IRVINE: All right. It is another way of saying it. Price levels have gone down, but why have price levels gone down.

The CHAIRMAN: Is there not such a thing as the law of supply and demand?

Mr. IRVINE: Are you asking me?

The WITNESS: There is just one thing I wanted to say. You referred to an address of mine in Winnipeg, and I am sure you wanted to be fair.

Mr. IRVINE: Surely.

The WITNESS: But you indicated that I said that savings deposits are a measure of loans. What I said—I have a copy of it here—you will recall that I drew attention to the fact that we also had our capital and reserve—I said, "As savings deposits are a requisite to and (roughly speaking) a measure of loans, these deposits are greatly sought as an indirect source of profit."

Mr. IRVINE: Your back door was in the "roughly speaking"?

The WITNESS: Yes.

Mr. IRVINE: I wish to thank the witness.

By Mr. Willis:

Q. Might I ask, Mr. Dodds, how many rural branches you have in your bank, in Western Canada?—A. I can get you the figures.

Q. In any event, you have a number but not many?—A. We have a great many.

Q. In connection with those smaller banks, Mr. Dodds, in rural Western Canada, what restrictions do you place upon your individual manager?—A. In smaller branches.

Q. Yes, in smaller branches. For instance, you have a branch in Hartney, Manitoba.?—A. Yes.

Q. And I think you yourself were manager, at one time, at Reston?—A. That is right.

Q. I think probably it was responsible for your great rise?—A. I am sure it did me good. I now have the figures giving the number of branches. The Bank of Montreal has 36 branches in Manitoba; 51, in Saskatchewan; and 55, in Alberta.

Q. How many rural branches?—A. That I am afraid is not here, but we have a good many. You were asking about restrictions.

Q. The restrictions which you place upon managers in those smaller branches, such as Hartney?—A. I cannot just tell you what the limit is to the manager of our Hartney Branch. There are sometimes cases where limits depend not only on the locality but on the manager there—on his ability to lend money. It might be a fair assumption that the manager of a bank in a community about the size of Hartney would have a limit of about $1,000, or $1,500.

Q. Do you put on him a total limit for the year, or for the season?—A. There is no total limit at all.

Q. There is no total limit?—A. No.

Q. It is just the limit to the individual?—A. That is right.

Q. Well, what instructions do you give him, in regard to loans? I mean does he have to report his loans to Head Office to get sanction, above a certain figure?—A. That is what I thought you were getting at. The manager has the right, has the authority, to make loans for productive purposes, and so on, in places like that, we will say, for a thousand dollars, without reference to Head Office.

Mr. MACMILLAN (Saskatoon): On his own initiative?—A. On his own initiative.

[Mr. Jackson Dodds]

By Mr. Willis:

Q. Is it not a fact that these restrictions have changed recently?—A. That is quite untrue; they have not changed at all.

Q. Then I have been given incorrect information on the matter?—A. Well, I am sorry, but I think you will accept my word that we have made no change.

Q. Is it not a fact, Mr. Dodds, that within that district, for instance, where you were one time manager, there used to be lines of credit and they do not exist now?—A. Well, there would be a line of credit in the sense that a man would walk in to the manager and ask for a line of credit, and tell him that he would want so many hundred dollars for putting in his crop in the spring, and so many hundred dollars later on, and so much when he was threshing, and he would say "Am I all right for that?" and the manager would say "Yes" or "No" as the case may be; sometimes it would be "no." and if he wanted more than a thousand dollars, if he was a big operator, the branch manager would have to show, to his Head Office, that the amount would be forthcoming at the end of the time or period for which the money was required.

Q. Is it not true in those smaller places, for instance the place I come from, that some men there had a line of credit up to ten thousand dollars and they cannot get it now?—A. Farmers.

Q. Yes, farmers?—A. Well, I do not ever remember, in all my experience, lending money to farmers up to ten thousand.

Q. Yes, but the line of credit was there; I am suggesting the line of credit was there if he desired to use it, which is not there now?—A. Well, it is possible that one of the banks which could no longer continue in existence loaned money that way. You had the Union Bank there, had you not?

Q. Yes?—A. Well, it is no longer in existence.

Q. No; we have a stronger one in its place though. Is not this a fact, Mr. Dodds, or is it a fact, in connection with your branches that where he once need only report a loan of a thousand dollars, or over, latterly he had to report loans for sanction of $500; and latterly again he had to report loans of $300; he did not even have discretion up to $300.—A. That is not correct. What I think you have in mind is, that in a number of our branches they can lend up to, we will say, $500, or $1,000, or $1,500, but when the manager made the loan and the money was withdrawn, he had to report the details of it. That might be what you have in mind.

Q. What I have in mind is precisely this—and I have talked to bank managers with the Royal, the Bank of Commerce, the Dominion and the rest—and they tell me that where formerly they had a credit of $1,000, or could lend up to $1,000, that that has since been brought down to $500, on instructions from Head Office, and was afterwards brought down lower even than that.—A. I cannot say what has happened in other banks. All I can tell you is to the best of my knowledge it did not happen with us. However, it might have happened in some case where a manager had a limit of a thousand dollars he would take full advantage of it.

Q. Have you certain banking policies, Mr. Dodds, for certain districts, that is to say, where a district has had crop failures for one or two years would you have a different policy there than you would have in a district where there have been good crops.—A. Our general policy is to lend all the money we can for farming purposes where we know we are going to get it back. In districts where, year after year, they are hailed out and the man's position is getting worse, or he is dried out, and so on, naturally the manager will not lend so much money and I suppose he gives the best excuse he can. I do not know just what they say. They often blame Head Office, naturally.

Q. For instance, men come to me, in my present unfortunate position, with stories with regard to the bank that they have 200 acres of wheat standing out there ready to cut and cannot buy binder twine, and that the bank will not

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advance them $50, for the binder twine.—A. Even that is possible, with all the legislation that Provincial Parliaments have enacted it has made it difficult for farmers to get credit and, of course, there may be a thousand and one other things to take into consideration.

Q. Without those features, in the ordinary case where a farmer, perhaps, has 200 acres of wheat standing out in the field ready to be cut and there is no creditor in the picture, outside of the usual taxes and perhaps the mortgage company, in some cases the loan would not be made.—A. Well, if you say that you know of such cases all I can say is that I would like to have the details, because if there are only those things that you mention and there is that standing crop of 200 acres and a man cannot get $50 to get binder twine, and so on, I would want to know what his character is to start off with. You referred just now, Mr. Willis, to restrictions and so on. You perhaps noticed, in the report of the Royal Commission, that 99.64 per cent of the loans on the Prairie Provinces are never referred to Head Office.

Q. Because they are of the smaller character, but is it not a fact that in a district which has probably not had good crops there are restrictions.—A. We have no definite restrictions about this part of the country, and so on, but naturally if the record of that part of the country is that the farmers are not going to get crops and they are saying they will repay from the crops, you are going to be more conservative in the amounts you lend than if it was a well known crop district.

Q. So that there might very well be restrictions there in regard to districts where there were no crops, or poor crops, whereas there are no restrictions for districts where there are good crops.—A. There are no definite restrictions other than that the manager who is there knows that the conditions are such that it is possible he may not get his money back. I do not want to get at cross-purposes; I will try to answer whatever you want.

Q. All I want to show is that in regard to those Head Office instructions they become definitely of this kind: Restricting the manager's power to lend money for this purpose down to $300 alone.—A. No.

Q. Well, I can read English, Mr. Dodds.—A. Well, I would like to see it. I am only answering for my own bank, and I say that to the best of my knowledge I believe there is no such thing in the Bank of Montreal. There may be, but I do not know of it, and if you know there is, I wish you would tell me. You can tell me here, or afterwards, if you like and I will inquire into it, personally. Personally, I say in the meantime, that until it is proven to me, I doubt it.

Q. What value do you put on what you might call the moral obligation? By that I mean precisely this, that whereas a man has gone along for ten years and paid his debts and has been a successful farmer, what value do you put on that?—A. Well, I put the biggest "C" there is to every such loan ever made, and if your loans are to be good the first thing is the moral obligation, character.

Q. In regard to the question of security for a loan, what security does the usual rural manager take on loans, say, to a farmer?—A. He just takes that character we have been talking about.

Q. You do not need to commit your branches or the branches of other banks.—A. Just let us stick to mine.

Q. Would you not suggest that he was a good manager who said firstly, that if you want to borrow a thousand dollars we will make a note, and secondly— —A. Well, we always have a note. I thought that was assumed.

Q. And secondly, we desire you to bring in your title deeds to the two sections of land which you own, showing clear title.—A. Well, that is not security.

Q. That is not security?—A. The borrower cannot mortgage his farm, if he has not got the title deeds.

[Mr. Jackson Dodds]

Q. But usually he is asked for that?—A. Not usually. It is an evidence of good faith, that is all.

Q. And thirdly, is it not a fact, Mr. Dodds, that most managers—or at least a number of managers—on top of that would ask for a chattel mortgage on the man's goods?—A. Well, I think it might invalidate the loan, if he did.

Q. You have to be careful, that is true.—A. Well, there you are.

Q. But, Mr. Dodds, I am coming to this, that in regard to loans from banks one of my criticisms in regard to farm loans is that you do take all the security the man has?—A. Well, we are ready to release it as soon as he pays off.

Q. I agree with you, but your policy is to get as much security as possible; that is the policy of what might be called good bankers?—A. I never refuse security that is offered to me.

Q. Would you refuse to ask for it?—A. Sometimes.

Q. I have found this to be the case, Mr. Dodds, in connection with rural managers, and I found it to my sorrow— —A. I am sorry.

Q. —that they do not accept the security of the man as a moral obligation without saying, "well, after all, we do not know that this crop is going to be taken off, this man may be all right but we do not know whether hail is going to come or not"; and they do not accept the security of his title deeds to a great degree due to the fact that they say, "well, we do not know what the sale for this will be when we would have to deal with it." That is the point where I come in, Mr. Dodds; they come to me with the note and I say "what are you doing with this note?", and they will say "well, the bank manager sent me up and said if he gets your endorsement he will be glad to lend the money."—A. Well, I must congratulate you on the high character you must have in your district.

The CHAIRMAN: I think we have all had that experience.

By Mr. Willis:

Q. Mr. Dodds, would you mind moving into my district?—A. I imagine you would be a very good neighbour.

Q. Then, Mr. Dodds, the next thing that I have found is this, that I go down with this gentleman to the banker and I say to him "Mr. so and so, why is it that you will not lend this man this money, he is a good farmer in this district and has been here a long time, he is worthy and intelligent, and in the past he has paid his bills." He turns to me and he says, "the reason I will accept your endorsement is because you have got a salary"—indefinite as that may be.—A. Oh, I think it is your character.

Q. I am sorry to differ with you on that, Mr. Dodds, but those are the restrictions which we find, and the general criticism is made—and I have tried to check it up as well as possible—that in those districts where there were no crops loans will not be made.—A. Well, if there are not crops then you cannot expect loans to be made. If you realize there are not going to be crops then you are not going to lend the money.

Q. May I point this out to you—and I say it is unwise on the part of the banks—we have in Manitoba what you might call the north and the south, and in the south of Manitoba in 1925, 1926, 1927, and 1928, we had far better crops than they had in the north. Then it turned. The crops in the north were very good for 1930, 1931, and 1932, much better than in the south. Now, you gave out ample to the north, and perhaps afterwards when we do not need it, you will probably give us all the credit we want.—A. As I told you once before to-day, we are not infallible. I wish we could guess where the crops are going to be.

Q. But does that not heighten the depression, Mr. Dodds?—A. No. I think that money is loaned unwisely, that is, where it is not going to do anybody any good to put it out, and where there is a chance that the money will not be repaid—letting men go and buy things which they cannot afford to buy. For instance, if you go into a district where it has been dry up to the middle of June and a farmer comes in, in July, and says "I have got a good crop," the manager quite naturally thinks to himself "well, how much of that crop is he likely to cut?"

Q. My difficulty is this, Mr. Dodds, my great criticism against the banks is that they come to me at that time and I go out and look at their crops and I endorse their note.—A. That is where your salary comes in.

Q. Again indefinite as that may be. You are lending other people money it is true, but in the way in which you are lending it, the restrictions which you are setting up, you are making it more difficult for those people to carry on, and you are giving credit where credit is in reality not as necessary as it is in other places with an equal chance of return. As I pointed out there is a failure in one place one year, the south goes down and the north comes up, and another year the north goes down and the south comes up.—A. Yes, and we take those reasonable risks, but when it gets past a certain point we go no further. Our greatest desire, our greatest thought, is to help the farmer and to help production, and I have spent a good many years of my life trying to do it, with some success, and I realize there are young men who are taking similar trouble as you have taken yourself, but with 3,900 managers in Canada, some with experience and some without, there are bound to be mistakes; but, by and large, I think they are all trying to help and, as far as we are concerned, we have encouraged our superintendents and others to make reasonable loans.

Q. May I suggest, Mr. Dodds, that the desire of the general manager is well concealed by the branch manager.—A. I know, but these fellows are young men. I was a young branch manager myself, and you get a man of your importance coming into the office—

Q. Mr. Dodds, would you put that in writing now.

The CHAIRMAN: It is on the record now.

The WITNESS: And he, in the manager's judgment, is being ill advised in endorsing the note, he does not want to say to you, Mr. Willis, you are making an ass of yourself—or whatever his thought may be at the moment—and he probably blames it on the superintendent, or the inspector, or whoever he may think of at the time; managers really are all human.

Q. May I suggest again, Mr. Dodds, that my criticism of the bank managers is, that generally speaking I go to them and I say "You are making an ass of me" because they send those men to me at a time like that?—A. Of course, every man who wants you to endorse his note says the bank manager sent him to you.

Q. Sometimes I have checked up and found it is so.—A. As I said a moment ago, Mr. Willis, it is your character.

Mr. WILLIS: I can see, Mr. Dodds, why you are general manager.

By Mr. Vallance:

Q. Mr. Dodds, is not the ability of a farmer to borrow determined first of all by the statement that he can give to the bank?—A. First of all it is determined by his character.

Q. All right.—A. And secondly it is determined by the state of his balance sheet and the information given by the applicant as to what he is likely to produce.

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Q. I want to give you a case. Going back to 1927, 1928, or 1929, a farmer walks into a branch bank, in the Province of Saskatchewan, he gives his statement, and he asks for a certain line of credit. The branch manager may have the right to extend to him credit up to a thousand dollars, as many of them have, especially in the Bank of Commerce, I happen to know that. Well now, he gives the manager the statement which entitled the manager to give him $2,000, at a time, in 1928. The same farmer walks into the same bank, in 1932, and he gives the same statement, with probably 50 per cent more available assets, but he cannot get $2,000. Why?—A. In the first place he cannot give the same statement, if I may say so. His land probably is not worth as much to-day; his cattle are probably not worth as much to-day; the grain that he has to sell is not worth as much to-day. He must have made tremendous progress between 1928 and 1932, if he is actually worth as much to-day as he was then.

Q. Well, just go a little further back and take 1919.—A. Anywhere you like.

Q. Going back to 1919 then—and by the way that was the year that we issued the last Victory Loan for the Dominion of Canada—and let us assume I am a farmer, and I might tell you I am—I walk into a bank and give a statement to the bank manager and I ask for a certain line of credit. The bank manager looks it over and he says, "yes, that is a pretty good statement, you are entitled to that line of credit." I ask you as a banker, suppose, for instance, that I have said to the bank in 1919, " I will take 75 per cent on the dollar for my statement," which anyone who knows values in 1919 would agree that I could have got, but suppose instead I have bought Victory Bonds, what would my position be to-day with a Victory Bond, would it still be worth 100 cents on the dollar?—A. It would.

Q. Well, where is the asset that I had?—A. Well, the asset you had you have still got, you did not sell it for the Victory Bond. If you had sold it for the Victory Bond you would have 100 cents on the dollar.

Q. Don't you see, Mr. Dodds, what the farmer says to me. That simply because he was foolish enough to leave his money in agriculture, or to leave it in industry, that is the only reason why the Victory Bond is worth 100 cents on the dollar to-day. Mr. Chairman, I have been endeavouring for a good many years to get an answer to that question because it is asked frequently of me in Western Canada to-day.

Mr. Lawson: I can answer it.

Mr. Vallance: Well, possibly Mr. Lawson can answer it, but I would much rather Mr. Dodds would answer it.

Mr. Lawson: The reason he left it in farming is because he thought he could make more money out of it by leaving it there.

Mr. Vallance: No, Mr. Chairman. It is easily seen my good friend comes from Toronto. However, that is the question the farmers are asking me to-day. If a farmer walks into a bank to-day with 50 per cent, or, in some cases, 100 per cent, more available assets he cannot get the line of credit that he got when he had 50 or 100 per cent less available assets, and he wants to know why it is that he cannot get it.

The Witness: I perhaps should just say that our policy has been just the same, we have not changed; the prices of the farmers have changed, but our policy has not changed.

Mr. Vallance: Well then, probably the reason why the farmer finds himself in the position he is in to-day is simply because of the condition the witness has pointed out.

[Mr. Jackson Dodds]

The WITNESS: No. I suppose when he could have sold at that time a whole lot of people were willing to buy. Now they are not.

By Mr. Geary:

Q. Can you tell me, as of any date you have, the amount of your loans outstanding?—A. Say that again, Colonel Geary, please.

Q. Can you tell me, as of any date you have, the amount of your loans outstanding.—A. I will have to read those figures across. At the date of the 31st of January, 1934, we had Call and Short Loans (not exceeding 30 days) in Canada on stocks, debentures, bonds and other securities of a sufficient marketable value to cover $5,772,726; Call and Short (not exceeding 30 days) Loans elsewhere than in Canada on stocks, debentures, bonds and other securities of a sufficient marketable value to cover $25,459,915; Other Current Loans and Discounts in Canada $193,810,064; Other Current Loans and Discounts elsewhere than in Canada after making full provision for bad and doubtful debts $6,795,022; Loans to Provincial Governments $5,295,339; Loans to Cities, Towns, Municipalities and School Districts $33,779,321; Non-current Loans, estimated loss provided for $3,831,791.

Q. About $275,000,000, is it.—A. Roughly $275,000,000.

Q. That is what I make it about. Then can you tell me what your savings deposits were as of that date.—A. Deposits by the public, payable after notice or on a fixed day in Canada $379,746,146; Deposits elsewhere than in Canada $60,866,345, which is $440,000,000 roughly.

Q. Well then, the figure you gave me, $379,746,146, are those classed by you as savings deposits.—A. Some of them are savings deposits and some are deposit receipts, but they are all deposits that are payable after notice or on a fixed day.

Q. Well, to shorten it, are deposits arising from loans included in that amount?—A. Well, deposits arising from loans are temporary deposits—people do not borrow to put money in savings or on deposit receipt. The proceeds of those loans will be found in the column headed "Deposits by the Public, payable on demand in Canada, $126,922,556."

Q. Then when you use the language that your loans outstanding are roughly speaking based on your savings deposits—A. I said savings deposits are roughly speaking the measure of loans; these deposits are accordingly set as an indirect source, that is to say, roughly speaking we can lend against our savings deposits and carry loans up to the extent of those figures I have given you.

Q. Your lending is, roughly speaking, somewhere of the amount of your savings deposits.—A. Well it would be if we could lend the money, Colonel Geary.

Q. But you do not include in your savings deposits credits that arise on deposits by virtue of loans made by you.—A. No.

By Hon. Mr. Morand:

Q. Mr. Dodds, just following along the line of questions asked by Mr. Geary, is it not true that every time you make a loan, indirectly, you increase your deposits? Might I put it this way: You make a loan of $1,000; the man spends that thousand dollars and it returns to you, or other banks, in the shape of deposits, so to the extent that loans are increased in the country deposits are increased, generally speaking, either savings or current, is that true.—A. When we make a loan presumably the man wants to pay somebody and it does not stay very long; presumably it goes to somebody, and as loans are made obviously—

Q. There is a deposit made and your savings or current accounts increase —A. Yes.

Q. Now then, during the War there were tremendous borrowings by the government more particularly; as this money was spent it got into the hands of

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merchants, and went out as wages, and so forth, and to the extent that there were borrowings your savings increased more or less in direct ratio, I believe that is true, is it not?—A. I was not here in the War, but I assume such savings would.

Q. That would be the natural thing; therefore when the savings increased that man could purchase more government bonds, and again on these he could borrow further. I think that was a common thing during the war, it was with me—speaking from experience; was that, or was that not inflation?—A. There was inflation at the time of the war.

Q. There was inflation at the time of the war; in other words, could you give us any idea the extent of the inflation, say from 1914 to 1920?—A. No, I am afraid not; I have not the figures.

Q. Multiply ten times?—A. That is a theory which a lot of people seem to hold, that because a bank has a dollar on deposit they could lend $10. Nothing is further from the truth, despite what theorists and others say. The bank can only lend the money it has on deposit.

Q. You are very very clever, sir, in the way you put your answer?—A. Thank you.

Q. That theory may be held now in a direct way, but the fact of the matter is that as the loans are made the deposits increase, and as the deposits increase then greater loans are made; I think that was very evident during the war?—A. Well, quite often a loan may be made, a deposit increased, and then that man pays that money out to somebody else, and he repays a loan.

Q. To that extent, of course, there is no increase—if it is a loan paid?—A. That is just it.

Q. However, it is quite evident during the war that there was a very marked inflation, and in 1921 there was a definite inflation; can you tell us how the deflation was started at that time, do you know? You would not hazard any opinion as to that? And then from 1924 to 1929 again there was a marked inflationary period?—A. Well, there was a great expansion of business all over the country, and it seemed to us—as I explained before to-day—that in some cases it was going too far, speculation in stock, for instance; and we would put the brakes on that to enable us to lend money which was required in commercial business.

Q. What I am driving at—I am not a lawyer, sir?—A. Neither am I.

Q. My questions may not be as direct as I would like to have them. What I am trying to get at is this: by virtue of the inflation—and that inflation during the war is, I think, admitted—during that period a considerable increase in savings was created, and by virtue of that savings there was more credit; did that, or did that not, increase the price of goods generally?—A. I am afraid, sir, it did.

Q. As a matter of fact, prices increased.

Mr. Lawson: Ask him, what about the demand for goods at that time.

By Hon. Mr. Morand:

Q. Yes. Was the demand any greater than it is at the present time; there is tremendous demand now, without the ability to buy, at that time there was demand with ability to buy?—A. I do not know that there is a very great demand at the present time, I have not heard about it.

Q. I am afraid you will have to leave Montreal, Sir; there is a big demand in my city, but no opportunity to buy—not a demand, but a "want". But I am not going to carry that any further. In my own mind I am quite convinced that the greater the amount of the savings, the greater the amount of the loans, and the greater the amount of loans the greater will be the amount of savings, and the greater the savings the higher will be the prices paid for goods?—A. Not

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necessarily, Mr. Morand; you might have a greater amount of savings, we have large savings now, but there is no demand for the money; the man who has money is hanging on to it.

The CHAIRMAN: Do you think there is a direct ratio between the two, the amount of savings and the amount of loans; take the case of a loan paid to A, he pays B, who turns around and repays his loan back to the bank.

By Hon. Mr. Morand:

Q. That is true, so long as you are in an inflationary period. But in a period of deflation demand for loans is not so great. That is what is happening now. I notice that you read, during your statement, a number of letters to your managers; I believe they started around 1927 and on to 1929, advising the cutting down of loans for certain purposes; first of all I believe they were on stocks and bonds?—A. That was the only thing I could see in here—loans to brokers, loans for other than business purposes. I do not want that to be confused with anything else.

Q. I understand. May I ask this question; was that a concerted action on the part of all the banks?—A. Absolutely no. There has been no concerted action in these matters at all. I thought I had made that quite clear, as I said somewhere in this. "Whilst there was no concerted action, the foregoing may be taken as an illustration of the steps adopted by banks, even before the deflation began."

Q. There was no concerted action?—A. No. I pointed out, I think quite clearly in this memorandum of mine, that I told our managers I expected we would lose business, I expected we would lose the profit on doing that business, and I believed it was in our own interests, and in the interests of the country at large; in other words some other bank would take the business. They were not all acting together.

Q. Well, Mr. Dodds, I am not very familiar with the action of banks, but is not this true: if one of the large banks cuts down on its credits and it becomes known at the clearing house, are not the other banks forced to do so too?—A. No, they certainly are not forced to do so. They have the greatest opportunity of increasing their business thereby.

Q. But they cannot increase their borrowings?—A. Why can't they?

Q. They cannot meet their payments at the clearing house?—A. They might not all have money to loan.

Q. They have right now. Is it just a coincidence that during the period of inflation prices went up, and during the period of deflation credits began to be pulled in and prices went down?—A. Wait a minute, you are getting these two things mixed—when credits began to be pulled in—, by whom?

Q. By the only people who can give them?—A. That is not the process at all, as I took the trouble to explain; people will not borrow money. There is not as much money needed for business to-day. The banks are looking for good commercial business, we have advertised that. We have told everybody that we are anxious for good commercial business.

Q. I am not going to argue the point, but to me it is so evident that there are hundreds of thousands of people wanting for the things they need; and there are thousands and thousands of people who want to do business. It is to me simply ridiculous to say that people have ceased to want credit, that people don't want to do business, that they do not want more money?—A. I am sorry you have that view. I cannot help it if you do not agree with me.

By Mr. Jacobs:

Q. What is the "rest" account of the bank?—A. The "rest account" is the money—I can give you the answer if you will give me the time just to look in here, I can give you the exact figures of the reserves, or the rest account of the

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banks; about $162,000,000 of which $103,235,000 was paid in by shareholders as cash, as premium on stocks, when new issues were made; the balance represents earnings set aside from time to time over a course of years, in the case of the Bank of Montreal, 115 years.

Q. And the amount at present is what?—A. Of all of the banks? I cannot tell you, because I am informed some of the banks have reduced their reserves.

Q. Does that apply to the Bank of Montreal?—A. It does not.

Q. It does not?—A. No.

Q. There has been no diversion from the rest account to the profit and loss account?—A. No, sir.

By Mr. Spencer:

Q. Is not the amount of the reserve $132,000,000; I looked it up to-day?—A. I beg your pardon.

Q. Is not the amount of the reserve $132,000,000?—A. I was giving the figures, as I said before, before the reduction was made; at the time this address was made. The reserves of the bank to-day are—let me see—

Mr. IRVINE: While the witness is looking that up Mr. Chairman, I suggest you might give him a rest and bring some other bankers on, and bring him back again.

The CHAIRMAN: I suggest it would be better for him in the long run if he were to continue.

The WITNESS: The amount of the reserve is $132,500,000.

By Mr. Jacobs:

Q. You said, in your balances in New York you have not lost a dollar?—A. That is right, I said on our balances in call loans in New York.

Q. Yes, I suppose the same cannot be said with regard to your balances in the western provinces?—A. No, sir, it cannot, nor in Montreal.

By Mr. Spencer:

Q. Or in Montreal?—A. Or in Montreal; we have lost some money in Montreal, as I said.

By Mr. Jacobs:

Q. You said this morning that you took occasion in 1927, 1928, and 1929, to notify the public through the president's address, and through the general manager's address, that there might be danger if they persisted in the way in which they were going?—A. Yes.

Q. That, I suppose, was to be applied to the people of Canada as a whole?—A. Yes.

Q. The address was a general address?—A. Yes.

Q. Well, during that period from and after 1927, is it not a fact that very large issues were put out, particularly in Montreal, Toronto, and other large cities, for industrial enterprises; and that the people who were responsible for the putting out of those issues received the support of the banks, because such issues could not be put out without the banks and their subsidiaries, they were largely directors of these very banks who were sounding this warning to the people generally—when I say directors, I do not mean particularly that they were acting as directors of the bank, but through this inter-locking system whereby thirty of forty people control the entire finances of the country, they were largely responsible for the collapse which came in 1930, and later?—A. No, I do not think so. I do not see any connection with the banks and the putting out of these issues, a great many of which were put out by investment bankers.

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Q. Apparently the note of warning that you were sounding had not reached the ears of these gentlemen who happened to be, at that time, directors of banks?—A. Well, I do not know that they were directors of banks.

Q. I think we all know that, except yourself, Mr. Dodds; how could an issue go over successfully, in this country, unless it had the support of the various pundits of commerce and finance throughout this country?—A. I do not think all the pundits of the country are in the banks.

Q. The "Mystery Men?"—A. I am sorry I cannot agree with you.

Q. I would like to know of any of them that were not directors of banks on any list published at the time of the men backing these issues?—A. I think that is a matter which can be turned up, I do not wish to mention anybody's name in that connection.

Q. No, I do not wish to name them either; but it is public property.

Mr. Irvine: Keep it quiet.

By Mr. Jacobs:

Q. What I am trying to put before you is this, Mr. Dodds. That you were warning the public generally, and the people under your own roof, so to speak—but the banks generally do not seem to have given very much attention to the warning because they went on—you will admit that there was nothing done in the way of stopping this mad speculation other than the mere statement of the general manager, or the presidents of these various banks, it did not have much effect, as a matter of fact, the speculation increased?—A. I was talking about speculation in stocks. You are talking about something else. So far as corporation issues are concerned, since 1924—and when you ask me a question about our own bank, we were connected with 21 issues altogether; our name appeared in connection with 21 issues. Ten of these were Canadian Pacific, four were Bell Telephone, five Shawinigan Power, one Canada Steamships and one Penman's. Only one of these is in default.

Q. One issue?—A. One.

The Chairman: A pretty good record, isn't it?

Q. No Pulp and Paper issues?—A. No, thank you.

Q. Out of the goodness of your heart, you allowed other banks to handle those?

Q. Now, do you know that after these warnings were given by you, speculation never was so rife in the history of Canada as it became then?—A. As I pointed out this morning, if all in this room decide they want to do something, one man cannot do much to stop them, they would not take any notice. The same applies where the bank manager told a man not to speculate. We will say he told him in 1927, and that man missed his market; and then he told him the same thing in 1928, and the man would say, "look what I would have made, if you had kept your advice to yourself; I would have made so many thousands of dollars." Then he decided to get in, and he went in, and lost everything. You can tell men lots of things, but you can't force them to pursue a line of action.

Q. It was merely a voice crying in the wilderness?—A. Yes, you know these people.

By Mr. Smith (Cumberland):

Q. There are two questions which I would like to direct to Mr. Dodds: the basis of the criticism frequently heard with respect to the policy of Canadian banks in periods of prosperity, and the converse, in periods of depression. I realize, Mr. Chairman, that the information on these questions has been given in part, piecemeal, by Mr. Dodds to other gentlemen, but not with sufficient continuity to lend any completeness to the reply. The first question is this:

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that in a period of prosperity the banks are, shall I say, generous—perhaps not generous, free—with their credit, especially with respect to speculative borrowing; they make credit easy, thereby enticing the borrower to take advantage of the bank's services. That is the first question. The second one is:— —A. Wait a minute, hadn't we better take these questions in instalments?

Q. I would like to put the second one, and you might elaborate on them, if you don't mind?—A. I will do whatever you wish.

Q. The second one is: in periods of depression, or perhaps on the verge of depression, or contraction of business, the banks freeze-up on their credit; thereby undermining public confidence, and really intensifying the serious situation about to be ushered in by the depression?—A. That is what we have been talking about all morning.

Q. As I said, it was piecemeal and not of sufficient completeness to lend any continuity to it to follow it?—A. You will permit me when I say if you would write out that question, or have it written out, it would enable me to answer it better than to try and answer it, by trying to remember what you said. I remember the first one of the words was "enticing." I don't remember enticing anybody to borrow money at any time.

Mr. Jacobs: "Inducing." "Enticing" is a word that is used on slightly different occasions.

By Mr. Ernst:

Q. I have just one or two questions that I would like to direct to Mr. Dodds— —A. I would like to try and answer the previous one, if I can.

By Mr. Smith (Cumberland):

Q. I will put it this way, Mr. Dodds, that the banks are too free in periods of prosperity and too tight in periods of depression?—A. That is the charge, now, of the banks being too free in times of prosperity. In times of prosperity there are lots of goods to move, goods are turned over and money is being loaned to provide the wherewithal to get the raw materials and business is turning over pretty quickly; the banks are being repaid and the money comes back, and then people start, as I pointed out, to think that a new era has come, and they start speculating. I admitted that the banks then tried to put the brakes on, to stop speculation, which was the danger signal; and we did our best to stop that, with what little success, Mr. Jacobs has explained.

Now, in the other times, just the reverse applies; people foresee prices going down; they stop borrowing. They do it. It is not a case of the bank putting on the pressure, except in such cases where it is perfectly obvious that prices are going down, and that the men must put their houses in order. Nothing will stop it, if the masses decide they won't borrow—they won't buy, rather. People won't borrow to do business. It is not fair to try to put it on the banks. You and I and everybody else are to blame, if anybody is to blame.

Q. The criticism is not a fair criticism, then?—A. I don't think so.

By Mr. Ernst:

Q. Just one or two questions; the first which I think is elementary is: The banks as such, do not create the country's monetary system?—A. Correct, Parliament does.

Q. Parliament creates the monetary system, and the banks operate or conduct the banking business within that monetary system?—A. That is so.

Q. And the banking business, in essence, is borrowing money from one portion of the public to loan it to another, from a banker's point of view? They get money on deposit?—A. Yes.

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Q. That is the theory behind it .

Mr. IRVINE: That is theoretical.

The CHAIRMAN: I think it is practical. That is what they do.

By Mr. Ernst:

Q. We come to the period for a certain time—I suggest up until 1926—the banks were actually to some extent increasing, or inflating, credits, both for stock-buying and for other purposes?—A. I don't say the banks were increasing or inflating credits.

Q. Well, I am not saying that they should have had any pre-vision at that stage of the affair?—A. Business was being done; money was required for the turnover of goods; goods were being sold and banks were providing the money.

Q. And they were also providing money fairly generously up until this time for stock market purposes; some banks were, I am not saying your's was?—A. I think it is fair to say that we were providing money for use, loaning it on call on the stock exchange which is a perfectly legitimate way of using money.

Q. Oh, yes, I am not suggesting it is not?—A. And when it came to a certain period where it was evident to us, though it was not to other people—it was not, for instance, to my friends who wanted to go on speculating and thought we were fools to stop them—when the banks came to that conclusion, they tried to put the brakes on, with the result, in many cases, of very much abuse of the banks.

Q. So that you would have a certain restriction of credit in that one direction starting, with your bank, from 1926?—A. 1927.

Q. 1927; that is from the speculative standpoint?—A. Yes.

Q. Now, there has also been, since that time, a restriction of credit for business purposes?—A. I don't admit that there has been any restriction.

Q. Let us arrive at it in a different way: Your loans would be smaller for business purposes to-day than they were in 1928 or 1929?—A. Yes. I have a very good example; for instance, in the wheat pool we have been talking so much about, if there are 100,000,000 bushels of wheat to move, and wheat is selling at $1 per bushel, we would require $100,000,000 to move it. If wheat was selling at 56 cents, we would require $56,000,000.

Q. You have arrived at the point which I wished to make; the suggestion has been made in the committee that the restriction of credit for business purposes was responsible, in some measure, for the fall in prices, in that the two coincide. Is not the reverse the case, that when you get a fall in prices, from a banker's standpoint, you cannot give as much credit?—A. If you get a fall in prices, so much credit is not needed.

Q. It is not needed, and also would be unsafe from a banker's standpoint to give more than the security justified?—A. Obviously, if you are loaning a man money to buy things that cost a dollar and they fall to 50 cents, you are not going to loan him a dollar.

Q. Naturally; so that from a banker's standpoint—and your business is to operate a bank from a banker's standpoint—the bank could not put any great amount of money into circulation, by way of credit, unless there is a rise in prices?—A. Well we put all the money that is necessary to handle the business of the country.

Q. Naturally; and if you put more than that, you would be endangering your own business. That is a fair way to put it, is it not?—A. I think I can accept that, yes.

Q. There is one other thing which I do not think has anything to do with this inquiry, but you expressed a view about inflation. As far as the banks are concerned, whether it is inflation or not, it would not affect the banking business as such; it may have repercussions on it, but banking will still be banking?—A.

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Generally, when there is a period of inflation, bankers are making some money, lots of money being used and they are great days, according to a lot of people.

Q. We differ in our views in that one respect.

By Mr. Beynon:

Q. I would like to ask a question or two of Mr. Dodds, dealing with a couple of points raised this morning in the discussion by Mr. Irvine's of the Power resolution. Mr. Irvine stressed the point this morning that immediately you begin to restrict credit to speculators, the prices begin to fall. Is it not a fact that during that period of speculation these speculators were making—some of them—a lot of money, actual money or paper money?

The CHAIRMAN: Paper money.

The WITNESS: Yes.

By Mr. Beynon:

Q. Some of them both, some one kind and some the other; and having made, or thought they made, a considerable amount of money, people went out and, perhaps, bought a high-powered automobile, where they didn't have one at all, or sold the old one and bought a new one?—A. I think there are lots of gentlemen here who can vouch for that, who can say that you are correct in that.

Q. And they would buy a radio, and perhaps a frigidaire, and an oil furnace, and a fur coat for the wife, and so on?—A. Yes.

Q. When you began to put the brakes on speculation, it would stop that kind of buying, would it not?—A. Well, I don't admit that at all. What I think you are trying to do—I don't mean you are trying to do it but I think the words are something that Mr. Irvine perhaps put into my mouth—I said we stopped speculation of that kind, did our best to stop it and did not stop it eventually; and that we wanted the money for the commercial business of the country.

Q. Quite so; but I say it would have had an effect on these people who, through speculation, were making money with which to buy things they never had before; if the speculation were stopped, they could not buy them?—A. If they were no longer making a profit, they would not be able to buy them.

Q. If you had felt this speculation could go on for ever, these people could go on buying these extra things; you would have been very happy, too?—A. There would be no end.

Q. Yes; I say if you felt it could?—A. I didn't say that.

Q. No, but I say that would be true?—A. Well, if the thing could go on for ever without ever bursting.

Q. You would be quite happy to have it go on?—A. I would not, no; I think there would be a catch in it somewhere.

Q. However, to that extent I assume it would reduce prices, and I assume it because it is buying that is promoted by this speculation itself; and production going ahead at the rate that it was before, there naturally would be a surplus of goods because these speculators could not buy all these goods that they had been buying?—A. Of course, business men would begin to see that there was a falling-off; and when it fell off there would be less money needed and so on.

Q. Then was there not another factor that entered into the fall of prices at that time; just along during that period there had been a very great move in instalment buying, had there not? People had purchased automobiles and radios and refrigerators and all this sort of thing on the instalment plan?—A. Yes. One of the big companies—one of the biggest in the world—engaged a professor of Harvard or somewhere else to show what a wonderful thing it was to go into debt and buy automobiles.

Q. Yes, and after a while their supplies of clothing and food and everything else began to run low; and when they went to replenish them, their instalments

were such a burden upon them that they could not replenish what they had to buy?—A. Yes. It is the old story, where people get to the stage where they say, "Shall we have a pot of jam or a gallon of gas?" and they bought the gas.

Q. Would you say as a banker, that that had a good deal to do with the fall of prices?—A. Yes, there would be less people buying.

Q. That is, they had mortgaged their future, and when the future arrived, they could not buy?—A. Yes, that is it.

By Mr. Geary:

Q. Mr. Coote was just about to ask some questions but was good enough to allow me—if Mr. Dodds would make these same answers that he gave him. He said that the popular impression—I think he put it that way—that banks loan to the extent of ten times the amount of their deposits was entirely fallacious, was entirely a wrong impression; that the banks do not lend to the extent of ten times the amount of their deposits?—A. No.

Q. Is that correct?—A. Just a second—

Q. I would like you to elaborate that. You know what I am after, will you elaborate that in a few sentences?—A. The answer I gave to that on one previous occasion was that there is a curious idea in the minds of some that a bank can lend eight or ten times the amount of its cash deposits. Dr. Phillips says that savings deposits have almost no multiplicative importance as a basis for loans, and further that banking is profitable not because an individual bank can lend $10 as a result of receiving $1 on deposit, which he states is not true, but essentially because a bank can normally lend an amount roughly equal to its savings deposits. As savings deposits are a requisite to and, (roughly speaking) a measure of loans, these deposits are greatly sought as an indirect source of profit.

By Mr. Spencer:

Q. If you put the word "currency" or "notes" in place of "deposit," would that be true?—A. As a result of receiving one dollar in currency—if we said, "An individual bank can lend $10 as a result of receiving one dollar in currency or notes"?

Q. Yes?—A. It would not make any difference; it would be the same thing.

By Mr. Coote:

Q. There are a few questions I would like to ask Mr. Dodds in his capacity as chairman of the Canadian Bankers' Association?—A. I am president.

Q. You have been on the witness stand a long while?—A. Well, I am as fresh as you are, I expect; you have had to listen to me.

Q. My first question is directed to the $35,000,000 loan that the government got from the banks, perhaps a year ago. I understand that the banks at the same time agreed to borrow from the government $35,000,000 under the Finance Act?—A. Yes.

Q. Would Mr. Dodds tell us whether this was discussed by the Canadian Bankers' Association?—A. My recollection is that we came to Ottawa—I don't think on that matter but on some matter—and it was discussed with the Prime Minister who wished us to carry out this transaction.

Q. Would you consider that a measure of inflation?—A. Do I think that was a measure of inflation?

Q. Yes?—A. Yes.

Q. And don't you think it was a good measure to take, in view of the deflation which most people agree had taken place before?—A. No, I don't. I never thought it as a good thing. I was agreeable to doing it, because the Prime Minister wanted, if I might use the expression, to "try it on the dog" and see what happened.

Q. My next question would naturally be, what happened?—A. Well, as far as we are concerned, we got $9,000,000 we didn't want at the time.

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Q. Didn't you make a one per cent profit on it?—A. We didn't make one per cent, because it was our practice to keep a percentage of all our liabilities in cash.

Q. What percentage of your liabilities do you usually keep in cash, roughly speaking? I don't want to tie you down?—A. Roughly, about $12\frac{1}{2}$ per cent, somewhere around that.

Q. Then you got a profit of one per cent, we will say, on $87\frac{1}{2}$ per cent of that amount?—A. There was a profit in it, yes.

Q. So that you really could not have been said to have assumed any loss at all?—A. I don't suggest it.

Q. And your business is to make profits for the bank, I take it?—A. Yes.

Q. What objection would you have to the transaction?—A. Because I think it was inflationary; as I said before to-day, I object to inflation. I would rather the transaction had not gone through.

Q. You would not approve then of carrying the process any further, that particular process of financing?—A. I certainly would not.

Q. And the reason you would object to it, would it be correct to say, is because it is inflationary?—A. Yes.

Q. Did the Banker's Association, between 1926 and 1929, at the time you were issuing warnings to your bank managers, discuss this matter as an association?—A. No.

Q. That is, the advisability of curtailing credits?—A. No. When I say "No" I was not there, of course. I was not a member of the Association, but I have seen all the minutes and it was not so; but I was not there.

Q. You were in the committee, of course, Mr. Dodds, when we were discussing the $60,000,000 loan to the C.P.R.?—A. Yes, I certainly was.

Q. And the necessity of the government guarantee for that?—A. Yes.

Q. Do you know if there are other institutions in Canada that would be in a similar position to the C.P.R. in that regard, I mean so far as difficulty—

The CHAIRMAN: Do you think you ought to ask that question, Mr. Coote?

Mr. COOTE: Perhaps I might follow it with another, then.

The CHAIRMAN: There may, or there may not be, but do you think you ought to ask that question?

By Mr. Coote:

Q. Well then, I will ask this question, Mr. Dodds: You are familiar with the Reconstruction Finance Corporation in the United States I presume?—A. Yes, I have heard of it.

Q. And have you heard that they have made loans of $3,920,000,000?—A. Yes. I have not heard what the end will be though.

Q. Do you imagine, from your experience as a banker, that there might be use for such an institution in Canada?—A. I do not think there is any need for such in Canada.

Q. There are one or two questions I would like to ask you out of the statement you made this afternoon. The first one is, do you object to any legislation that has been passed by Provincial governments in Canada with the idea of protecting farmers or other people in their homes or holdings?—A. A lot of things are done in the name of charity that I would not do. I think in endeavouring to do something for the farmer Provincial governments have done, in many cases, a great deal of harm to the farmer, and I think that if the government stands by to see that creditors are not unreasonable, this business of hemming people in so that there is no credit obtainable by farmers would be overcome, if they did not bring in a lot of these Acts.

Q. Could you give me some suggestion as to how governments could stand by to see that that was done?—A. Well, they have been standing by; if they

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thought that people were putting others off the land, and so on, why then they might consider it, but they assume in many cases, for instance, that the banks are going to take all sorts of action that they never take or never think of taking.

Q. Well, if you could tell me I would like very much to know if there are specific cases of legislation which you object to, and if you do not care to answer that now I will be glad to have you consider it and perhaps tell the committee later?—A. I object, in a general way, to all these pieces of legislation which put in between a debtor and his creditor prior liens, and there are prior liens galore, as I think was explained here somewhere. At all events, if they are not before us now it is easy enough for us to get a list of all prior liens.

Q. Do you object to all prior liens, is that your suggestion?—A. How can you object to certain liens. For instance, liens for taxes and so on, no one objects to those.

Mr. Lawson: Mr. Dodds is merely pointing out that they are obstacles to bank credits.

By Mr. Coote:

Q. A statement was made by a bank representative, according to press reports, at Winnipeg, before the Royal Commission on banking, to the effect that the banks have incurred large losses in Western Canada within the last few years. Would you subscribe to that statement?—A. Yes, but to please our Eastern friends, so that the West should not have all the benefits of this, I would also say that losses have also been made in Eastern Canada.

Q. Well, Mr. Dodds, why have the banks suffered those losses?—A. You are not really asking me why they have suffered them? Are you really serious in that?

Q. Yes I am, Mr. Dodds. I will tell you why, because the same statement was made in this committee ten years ago and I tried to get a statement of the losses and could not get it.—A. Well, why they have made the losses is because people have not repaid them.

Q. Was that due to poor management on the part of a bank, or what was it due to?—A. A certain amount of it, yes, but that is not all. It is generally what naturally follows in times like these when farmers and everybody else cannot pay their debts that they have been contracting.

Q. Well, is it, or is it not, a fact that the most of it was due to the fall in price of farm products?—A. A good deal of it.

Q. Well, did the banks take any steps to improve prices, or to keep prices from falling?—A. Well, when the price of wheat fell you know as well as I do that it fell outside of Canada, and that made the price fall here. What could the banks do? Perhaps you could enlighten me, what could the banks do to keep up the price of wheat?

Q. Well, perhaps I may in a minute, but might I ask you one or two questions before that? Did you discuss it with the government as a Bankers' Association or Bankers?—A. What, Mr. Coote?

Q. This matter of keeping up prices, the difficult situation we were facing because of these low prices?—A. No. When we have been in Ottawa everybody from time to time has spoken of these prices, but to meet and discuss them, no.

Q. Take wheat for instance. The price of wheat could have been raised if our currency had been allowed to depreciate further in gold countries, could it not?—A. You would not have got any more for the wheat in Liverpool.

Q. No, but we would have got more in Canadian funds.—A. Of course, if you adopt the Russian or German practice of inflation to such an extent that money is worth next to nothing, why in something that is called dollars you will get more.

[Mr. Jackson Dodds]

Q. If the Canadian farmer had had the same advantage so far as depreciation of currency is concerned as his Australian competitor had would you not have been able to collect more of your loans in Western Canada?—A. I believe that question was debated in the House of Commons and the answer was, no doubt, given there.

Q. Yes, Mr. Dodds, the question was debated but I do not think we ever got any answer, and we are trying to get an answer from a banker who knows something about money.—A. Obviously if there was tremendous inflation of currency—

Q. Would you say that there was tremendous inflation of currency in Australia?—A. There was an inflation of currency there.

Q. Well, was it too much inflation in your opinion?—A. Well, we have not come to the end of the time yet; they have only just started on this thing. We will wait and see.

Q. Well, have you taken the trouble to get any information as to comparative price levels in Australia and Canada?—A. No I have not.

Q. Well, are you aware that in Canada in 1932 the index figure of prices for farm products stood at 77, that is, using 100 as of pre-war, 1913, whereas in Australia it stood for the year 1932, I am told, at 110 on the same basis?—A. Well, if you say so, I will accept it.

Q. Well, if we had adopted such a policy in Canada would it not have made conditions much easier for the banks in Western Canada and for the producers?—A. It might have at the moment, but, as I say, I do not know what the final outcome will be.

Q. Are you aware of the fact that Australia abandoned gold in the year 1929?—A. Yes.

Q. And are you aware that our Australian competitors had an exchange advantage of as much as perhaps 50 per cent over the Canadian producer?—A. I do not know the figures but I will accept them, if you have them.

Q. Perhaps I should not have used that figure; I am not sure myself as to the particular figure, but you are aware that sterling was at a premium of 30 per cent in Australia?—A. Yes.

Q. And that must necessarily be an aid to the Australian farmer to pay his interest?—A. Well, I suppose if they went on inflating and got it away up to 200, 300 or 400 per cent they would all be rich, according to this argument.

Q. Well, without going that far?—A. Oh, no, go that far. Why not make them rich when you are about it.

Q. That is your suggestion?—A. That is what I am saying, let us be good fellows.

Q. Why not, if you consider that money is a measure of value or should be?—A. Well, we have gone into the question of money, I think we discussed the question. I said that money was a medium of exchange and a measure of value.

Q. Yes. Would you agree with this statement from the Macmillan report in England, page 94, paragraph 211:—

> The task of the monetary system, as we see it is, therefore, to balance, so far as it can, by changes in the quantity and terms of credit, the effect on the price level of certain fluctuating factors, which, whether we prefer to call them or their underlying causes monetary or non-monetary, are largely outside the direct control of the monetary system.

A. Well, I cannot say whether I agree with that or whether I do not, but I disagree with a great deal that is in the Macmillan report, and a great many of the people who were on the commission disagreed with it.

Q. Well, I was referring to the English report?—A. Yes, I realize that. That is what I am referring to.

[Mr. Jackson Dodds]

Q. Perhaps you would agree with this paragraph in the English report, page 114, paragraph 267:—

> We are emphatically of the opinion that, even if a further fall of wholesale prices be avoided, their stabilization at approximately the present level would be a serious disaster for all countries of the world alike; and that the avoidance of such an event should be a prime object of international statesmanship.

Do you agree with that, as to the necessity of raising price levels?—A. Where is that to be found.

Q. Paragraph 267, page 114.—A. I think you are incorrect there. Paragraph 267 is not about that at all. Page 114 is all about who appeared before the Royal Commission.

Q. Well, possibly my stenographer may have made a mistake in the page but that is supposed to be it, and if I have it incorrect I will just ask to have the question left out, it can be asked again.

The CHAIRMAN: The question is dropped for the moment.

By Mr. Coote:

Q. I have here just one question arising out of a statement of the Rt. Hon. Mr. McKenna, at the meeting of the Midland Bank in January, and he is talking of the increase of bank credit which has taken place in England in the last year or two. He says:—

> So much additional purchasing power has been put at the disposal of the public by the action of the Bank of England in buying first securities and later gold. We have seen a revival of business and a return to employment, accompanied by a comparatively slight rise in the price level; but as the recovery has not been attended by any of the dreaded horrors of uncontrolled inflation, none recognizes it for the deliberate inflation which it really is.

Would you object to that much inflation?—A. I do not agree with a lot of things that Mr. McKenna says. I think Mr. McKenna says things that will provoke discussion and draw attention to his bank, and that a lot of people do not agree with what he says. We can quote from other people who will not express the same views and have the same understanding.

Q. I would remind you, and I think it is correct to say, that at the Imperial Conference at Ottawa a great many of the statesmen there stressed the necessity of a rise in price levels. I would ask you if you agree with that?—A. We all want to see prices up, I think.

Q. Well then, have you any method, or do you know of any method, of raising prices, Mr. Dodds, except a measure which you would call inflation?—A. Well I do not think I have to bother my head with that now. I refer you to the preamble in the Act to incorporate the Bank of Canada.

Q. Mr. Dodds, might I ask you this, if you had not seen the preamble to the Bill in question then how could you answer my question?—A. Ah, but I have seen it, Mr. Coote.

The CHAIRMAN: Are you about through, Mr. Coote.

Mr. COOTE: I have a few more questions, Mr. Chairman.

The CHAIRMAN: It is quite evident, I think, that this inquiry will extend at least into another day. I am sure the witness is very tired and the members of the committee, too. I would suggest, therefore, that we adjourn to the 10th of April at 11 o'clock in the morning to cover the Easter recess.

The committee adjourned at 6 P.M., Tuesday, 27th March, 1934, to resume on Tuesday, 10th April, 1934, at 11 A.M.

[Mr. Jackson Dodds]

HOUSE OF COMMONS,

April 10, 1934.

The Select Standing Committee on Banking and Commerce met at 11 o'clock a.m., Mr. R. B. Hanson presiding.

The CHAIRMAN: Gentlemen, we have a quorum now. Will you please come to order. You will recall that when we dispersed on Tuesday, March 27th, Mr. Coote was concluding his examination of Mr. Dodds. I know of no better course of procedure than that we should follow that examination out to its logical conclusion. After Mr. Dodds is discharged, Mr. Patterson, of the Bank of Nova Scotia, will be called as a witness.

Mr. JACKSON DODDS, recalled.

Mr. COOTE: Mr. Chairman, before asking Mr. Dodds a question, I think the committee will remember that I quoted a paragraph from the Macmillan committee's report and, apparently, I did not have the right page number. The mistake was in referring to the Canadian report. The page number, which I gave at page 326 of the minutes of evidence, will be correct if you change "Canadian report" to "English report." That will make it clear. That is in the sixth line. It should read "English report" and it will then be found that the other references are correct.

The CHAIRMAN: The correction will be made in the revised edition.

Mr. COOTE: On page 324, is reported a question which I asked Mr. Dodds regarding the effect on the price of Canadian commodities, if our currency had been depreciated as was the case of Australia, in the year 1931-1932. Mr. Dodds, in his answer, saw fit to say: "if you adopt the Russian or German practice of inflation, to such an extent that money is worth next to nothing, why in something that is called dollars you will get more." I would like to ask Mr. Dodds this question: when I suggest depreciation such as took place in Australia, is it fair to drag in the example of Germany.

The WITNESS: Well, I have no doubt that Germany did not start out to inflate in the way that it finally ended. These things start out with the idea of doing a little inflating and so often they get out of hand; therefore, I made the comparison with one of the latest countries to inflate to any great extent and pointed out the result.

By Mr. Coote:

Q. Might I point out that Germany was a vanquished nation; she was bankrupt; she had fought a four year's war; she was bankrupt not only in money, but in goods; she was faced with large reparation payments, the necessity of paying off a lot of soldiers; her country did not have a stable government; so that I feel justified in asking, is it a fair answer to suggest the case of Germany?—A. In the old days France inflated, and there were the assignats—mentioned in my Winnipeg address—I haven't got it here but inflation went on until these things were worth nothing.

Q. France depreciated her currency, after the war?—A. I was not referring to that particular time. France, I assume, did inflate her currency, with the result that is known.

[Mr. Jackson Dodds]

Q. And that depreciation of French currency would, at least, show roughly what took place in connection with Australian currency?—A. Yes; but as I have pointed out these things start in a small way—France started out to have a little inflation, and wound up with a lot of it. Australia started, and I do not know what the end will be. I cannot tell you.

Q. I suppose you will admit that French currency during the last couple of years has been regarded as one of the soundest in the world?—A. It is on the gold basis.

Q. Yes, and that makes it sound, does it not? Is not that your understanding of sound money?—A. I would say it was sound.

Q. It has been sound?—A. Yes.

Q. Therefore, if we were as careful as France we might depreciate our currency and still keep it sound?—A. Yes, but who is going to say that we will be careful, and what will happen? France went its own way with regard to currency. I know what the view is of the poor people there who had francs before the inflation took place. I know also the view of the German who had marks and saw them dwindle away to nothing. You are talking about whether it is sound now on the basis it is?

Q. I will come back to a subject that is, perhaps, of more direct importance to myself and to the people I represent, and that is the question we discussed the other night, and, as you say, we hardly finished it: the price which we would receive for our export commodities, if our currency were depreciated. And in your reply I think you said we would get just the same amount of money for our wheat in Liverpool. As a matter of fact, Mr. Dodds, you are quite aware, I suppose, that the Canadian farmer does not sell his wheat in Liverpool?—A. Well, I always thought the wheat pool sold their wheat in Liverpool. Where do they sell it? They sell it in London, if you like; I do not care where you say.

Q. Does not the Canadian farmer sell his wheat for Canadian currency?—A. The wheat pool was a combination of the farmers, and the farmers desired to market their own grain, and you know and I know that they went to England to sell it, and the price they get is based on the Liverpool price. Of course, the actual fact is just as you say—the farmer in Canada gets paid in Canadian dollars.

Q. And his debts and interest and taxes, his insurance premiums, are all payable in Canadian dollars?—A. Yes.

Q. The goods which he wishes to buy for his operations are priced in Canadian dollars?—A. Priced in Canadian dollars, and conceivably they are bought in England or somewhere else.

Q. A very small percentage would be bought in England, would it not?—A. I do not know what the figures are.

Q. Let us come back to the case of Australia, so as to get comparisons—and I hope the committee will bear with me in this, because to me and my constituents it is the most important matter that has affected us since the Bank Act was last revised—I refer to the question of monetary policy. I have here the Commercial Intelligence Bureau Report of October 15, 1932, and in that report, at page 612, by one of our Trade Commissioners, I find this statement in regard to the price of wheat:—

> With the rise in prices, growers have been selling their stored wheat very freely, in many cases obtaining 3s. net per bushel at country railway stations, plus the government bounty of 4½d. (Both in Australian currency.)

Now, you are, no doubt, aware that that would be a much higher price, in their currency, than the Canadian farmer was getting?—A. I will accept that.

Q. I think it would be fair to say that the top price that would have been received by a farmer in Alberta at that time would have been 36 cents per bushel?

[Mr. Jackson Dodds]

—A. I have to accept—I am quite content, if you say it is so, to accept it. I cannot answer that, obviously.

Q. I am going to venture the statement that most of the difference in the price of wheat in the two domestic currencies was due to the depreciation of Australian currency in England.

Mr. STANLEY: That is your statement.

By Mr. Coote:

Q. The difference in the price of wheat as expressed in the domestic currencies of those two countries was largely due to the fact that the Australian pound was depreciated in England, and the Canadian dollar was appreciated?—A. I do not know whether it was at that time—I do not know just how the Canadian dollar was to the pound; but the first part answers it, if I accept that.

Q. As the result of the difference in price in these two countries, 100 bushels of wheat would have paid twice as much debt in Australia as 100 bushels of wheat would pay in western Canada?—A. As I said, I have to accept this statement. I cannot be responsible for these statements, but if Mr. Coote has worked it out and says that is so, subject to nobody checking him, I am perfectly satisfied, and I am sure he would not wilfully try to trip me into something—

Q. To make it perfectly clear: I am only asking Mr. Dodds whether that is the general fact. I am not asking him to accept these figures. This is the question I am trying to get at: did it not make it impossible for the wheat producer to pay his interest and debts, in many cases, because of the fact that the British pound was at a discount in Canada?—A. Did it what?

Q. Was it not responsible for the fact that many farmers were unable to pay their interest—their debts?—A. The reason the farmer was not able to pay his debts, of course, was the price of wheat—in Canadian dollars or in any dollars—the price of wheat was low. That was the first reason. And the second thing was, as you say, some people were getting paid in depreciated dollars. But as I have said, at that time to depreciate the value of our dollar deliberately would start a flight from the Canadian dollar and thereby add to the present heavy burden of meeting obligations payable in U.S. dollars. You spoke to me the other day about the 35 million dollar transaction.

Q. Yes?—A. When I got back to Montreal I turned up some records to see just what happened at that time. What happened was—I am quoting from the Financial Post of November 1932. Four major factors appear to have been chiefly responsible for the lack of enthusiasm in this matter:—

> The action taken by the government in instituting a policy of currency inflation coincident with the offering of the bonds.

It goes on to say:—

> The handicap imposed on the vast selling organization of the three factors outlined above might have been surmounted with some degree of success had not the news of the government's inflationary activities leaked out at practically the outset of the selling campaign. The discount on the Canadian dollar in New York immediately increased from 8 to 13 per cent and Canadian securities listed in New York dropped sharply in price and this drop was followed by prices of internal payment bonds.

That is the discount on the Canadian dollar in New York on November 2nd, when this was announced, was $10\frac{3}{8}$; on the 9th it was $14\frac{5}{8}$; on the 25th it was $18\frac{1}{8}$. I think they took notice of what the Prime Minister said, that he was going to maintain a sound currency, and things quieted down.

Q. What was the discount on English currency at the same time?—A. I have not got that. I think there was very little.

[Mr. Jackson Dodds]

Q. Was it greater?—A. I can give you the sterling closing price in Montreal, \$3·6596, November 2nd; \$3·7812, November 9th; \$3·7888, November 25th.

Q. The pound would be at greater discount in New York than that, would it not?—A. Yes.

Q. And the Australian pound was at a much greater discount in New York during that time?—A. It would be.

Q. And, so far as you know, Australia has met all her foreign obligations?—A. Yes. You must remember that Australia was very largely indebted to one country, England.

Q. And her currency was depreciated 30 per cent in England at that time?—A. Yes.

Q. That is a greater depreciation than affected our currency in New York?—A. Yes, at that time.

Q. And England has met all her obligations in New York, outside, of course, of war obligations?—A. What obligations has she outside of the war? I do not know of any.

Q. I did not intend to take that matter up. May I ask you this question on that point: how do we meet our foreign obligations, Mr. Dodds; where do we get the funds?—A. We get the funds from what we sell.

Q. I did not catch the answer?—A. We get the funds from what we sell; the balance of our trade, export trade—the balance has been in our favour.

Q. And what we sell brings as much foreign currency, whether our dollar is depreciated or not; is that not true?—A. As much something; but we are paid in foreign currency.

Q. I will get just as many American dollars for a car of cattle sent to Chicago, whether our dollar stands at 90 cents, or 70 cents.

The CHAIRMAN: It depends on what your contract called for.

The WITNESS: Obviously if you sold for American dollars you get American dollars.

By Mr. Coote:

Q. So that, as a nation, it does not make our foreign debt any harder to pay, whether our dollar is depreciated or not?—A. No, no—

Q. How does it? You say we pay with goods. If the witness cannot answer, I shall be very glad to have an answer from any of the members who laugh at my question?—A. We have paid an awful lot of debts by borrowing money abroad.

Q. Yes, by borrowing money. Our credit balance, our international balance, has shown a credit during the last few years. Then, you have not paid any of this by more borrowing?—A. We have renewed a lot of borrowings; we have had new issues; foreign borrowings plus goods; foreign sales of stocks and securities plus goods enabled us to pay.

Q. Well, will our exports of goods bring us as much foreign currency and pay off as much foreign debt, or interest, if our dollar is depreciated?—A. If we deliberately depreciate our dollar we will have to pay higher rates for borrowed money, much higher, and, therefore, it will cost us more, and we will have to ship more goods to do it.

Q. In substantiation of that statement, I wish you would give to the committee the rates of interest which Australia has paid on her foreign loans?—A. As I said at the start that has nothing to do with this particular question, in my view only. Australia has a wonderful creditor; she has Great Britain. Great Britain has helped her tremendously, as everybody knows; and I do not think that you can compare Australia, whose borrowings in New York were very small indeed, with Canada whose borrowings in New York are very heavy.

Q. You think that Australia's credit in England should be better than Canada's?—A. I do not see why you should compare them at all. Our credit is good in England. We borrowed 15 million pounds not long ago at a good rate.

[Mr. Jackson Dodds]

Q. What was the rate?—A. I do not remember—4 per cent or somewhere around there.

Q. The state of New South Wales, I believe, borrowed a year before that at a rate a fraction under 4 per cent?—A. Quite likely. New South Wales has been in that market; there have been issues steadily. That the investors were familiar with New South Wales had a great deal to do with it, and if we keep up our credit, and borrow in London again, we might get the wonderful rates Canada used to get in days gone by.

Mr. MacMillan (*Saskatoon*): Twenty years ago.

The Witness: Twenty years ago.

By Mr. Coote:

Q. I have here a statement—at least, a press dispatch, from Edmonton, dated last December, and it says that the Japanese Ambassador to Canada stated that Canada's wheat exports to Japan had been lost to Australia:—

> Our imports of wheat from Canada have fallen off greatly. We are now buying more of it from Australia. This is a natural consequence of a favourable rate of exchange.

A. That may be true, or it may not. You should have asked Mr. McFarland that.

Q. I think the same statement was made by the Canadian Ambassador to Japan?—A. He is not in the grain trade.

Mr. Ernst: I would like to say that, even though I am a Conservative member, and have some considerable sympathy with the monetary views of the gentleman to the left, I still do not think that these questions are within the terms of our reference. They deal mostly with the monetary system and not with the banks and banking. I do not see how they affect the action of the banks at all. Read paragraph 2 of Mr. Power's motion:—

> The general policies adopted by the chartered banks to combat the effects of the depression, and to what extent the said banks are responsible for the drastic deflation from which the country suffered, and is still suffering.

Now, for the life of me I cannot see what the question of foreign exchange has to do with the terms of the reference.

The Chairman: I think that point is well taken. Mr. Coote has almost, I take it, concluded his examination.

Mr. Ernst: Our inquiry must be interminable, if we go into the monetary system.

The Chairman: There is no doubt about that.

Mr. Irvine: Surely the question is based on the action of the banks, for, if our banks had inflated to the same extent as the banks of Australia, it would have given our wheat sellers a better opportunity in the British market; and surely, that is exactly on the point quoted by Mr. Coote.

The Chairman: Generally speaking, Mr. Ernst's point is well taken. I think Mr. Coote should confine his questions to the particular matter before us.

Mr. Ernst: The sole point is whether the government should have adopted an inflationary policy.

The Chairman: That is the general trend of the question.

Mr. Coote: I will ask Mr. Dodds this question.

The Witness: Mr. Coote has asked me some questions that I am anxious to answer, but when he gets on to questions like wheat, and the sale of wheat, and so on, then I do not think it is fair to ask me some of the questions that

[Mr. Jackson Dodds]

have been asked. I am reminded of the fact that one of the reasons why Australian wheat was sold in China and Japan was that they preferred soft wheat. That never entered my head at the moment, but I remember it distinctly.

By Mr. Coote:

Q. But might I make it clear what information I am trying to get: I understood from Mr. Dodds that he was absolutely opposed to anything that savoured of inflation and has been for the past four years, is that right?—A. Yes, I am opposed to inflation. If we start in inflating our currency, you cannot tell where it is all going to end. I have never met anybody yet who could tell just where to put the brakes on.

Q. I hope very soon to try to get you to tell us when to put on the brakes?—A. I thought we spent one whole day endeavouring to show you; it is a very hard thing to stop them if people want to speculate.

Q. You expressed the opinion that you would like to see every government balance its budget. Do you think it is possible for governments to balance their budgets at present price levels?—A. I think budgets can be balanced if people will set about it. You speak of governments. Well, if governments get together and the various countries do some trading, I think that would be a step in the right direction, but I do not think the way to get present day affairs straightened out is by spending time on monetary experiments. I think we can do a good deal better if we get busy trading, balancing our budgets and trying to straighten things out.

Q. I suppose you are aware that Australia balanced her budget and had a surplus last year?—A. Yes, but we have not come to the end yet. Australia started out on this thing and we do not know what the end will be.

Q. Might I ask, Mr. Dodds, what rate you are charging the government on treasury bills? The reason I ask is that I see the statement in an article I have here in "International Affairs," that the Australian government has borrowed from the banks at $2\frac{1}{2}$ per cent?—A. Yes, and they have an enormous floating debt and what the end of that will be I do not know.

Q. I am looking for measures to balance the budget, and I think it would help very materially if we got a lower rate?—A. I do not suggest following Australia.

Q. Your banks are charging a higher rate than that?—A. I am sure the Minister of Finance or the Deputy Minister of Finance will be able to tell you. Dr. Clark, perhaps you know.

Dr. CLARK (*Deputy Minister of Finance*): Three and three-quarters and three and seven-eighths.

Mr. COOTE: I think those rates have a very definite bearing on the subject. In a recent issue of "International Affairs" I find an article at page 89 by Prof. Copland, dealing with "The Premiers' Plan in Australia":

> Australia's main mistake was that she did not depreciate her currency sooner.

Do you agree with that?—A. I do not agree. I have told you that I do not agree with inflation, and it seems to me idle to go on following that up. I have said that so often. That is just what Professor Copland says.

Q. Would you agree that most of the recovery in price, this year, of Canadian export commodities is due to the increased value of sterling in terms of Canadian currency?

The CHAIRMAN: I think you had better repeat that again.

By Mr. Coote:

Q. Would you agree, that most of the recovery in price of Canadian exports commodities is due to the increased value of sterling in terms of Canadian currency?—A. If we sell goods in England and receive sterling in payment and get more dollars for the sterling that is obvious.

Q. If we had received, say, anywhere from $5 to $6 for sterling during the last two years would it not have put the banks of Canada in a better position?—A. I have heard it pointed out often around here that we should not be discussing the monetary policy of Canada; we are here to discuss what the banks did. If Canada had deliberately inflated our currency, if she had deliberately started out to depreciate it, I do not know what we would have paid for our borrowed money, or whether we would have been able to borrow or renew any of our maturing debt, or whether we should have had to default; I do not know; I cannot answer such a hypothetical question.

Q. Supposing we had not deflated at the beginning of 1930?—A. What do you mean by supposing we had not deflated. I do not know quite what you mean, who deflated?

Q. Well, perhaps I might ask you for a definition of the term "deflation".

The Chairman: You are making a statement of fact, Mr. Coote, with which the witness apparently does not agree, that we did deflate. You have got to determine that first.

By Mr. Coote:

Q. In 1929, the total bank loans in Canada were eighteen hundred and sixty-four millions, Mr. Dodds?—A. Yes?

Q. That is as of October 31, 1929, and on October 31, 1933, they were eleven hundred and sixty millions, seven hundred and four million less than they were in 1929. Would you say that that was deflation?—A. I will say that there was less money borrowed. If you are trying to make the statement that the banks deflated then I deny it, and I have denied it two or three times. If you mean to say our loans went down and in that sense it was deflation well, there was deflation.

Q. There was a decrease in bank loans?—A. There was a decrease in bank loans, that is perfectly clear.

Q. And the bulk of our business is done on bank loans, you agree with that?—A. I wish more of it were done on bank loans.

Q. I know a lot of people who would like to do business on bank loans?—A. Well, I would like to accommodate them if it is a good business proposition, as soon as I get through here.

Q. Why did the banks reduce the loans?—A. Why did the banks reduce the loans? I do not know why you persist in putting these things in my mouth. I am trying to be fair to you, but I do not believe you are being fair to me, Mr. Coote.

Q. You can put it any way you like, Mr. Dodds?—A. I used wheat as an illustration before; I have shown how the price of wheat fell, how much the reduced price of wheat meant, that the loans were that much smaller. I have done the best I can to explain it.

Q. Well, you are not suggesting that all those borrowers voluntarily came in and paid off their loans?—A. No, but I am suggesting that if you lend a man on an understanding that you will have a certain margin of security and that margin of security disappears, that is, if his arrangement with you is that you will carry the loan on a certain basis of security, and he finds it necessary to go and sell some of his goods when there are falling prices surely that is not the bank's fault.

Q. Well, in the banks insist—A. But if the banks do not insist, let us take it that way, and they let the man go on when obviously prices are falling and the margin that he previously had has disappeared, then what happens? The banks go under. You surely cannot ask the banks to carry loans that are improperly secured.

Q. Mr. Dodds, as a practical banker, when a borrower is forced to liquidate— —A. When the borrower does liquidate.

Q. When it is a general practice for these men to have to liquidate, does not that depress the price of a commodity?—A. Obviously if everybody is selling goods the price goes down, that is elementary, but you cannot blame the banks for that.

Q. I do not think the word "blame" comes in?—A. I used the word "blame" because that is what is implied.

Q. What was the policy of the banks?—A. Well, an endeavour is being made, I think, to prove that the banks are to blame. If that is the wrong word then probably I had better change it.

Q. Do you not think that an adequate supply of credit for business people is necessary to maintain stable prices?—A. I have said one hundred times, I think, that there has been an adequate supply of credit available all the time.

Q. Well, of course, we would have to have a definition of the word "adequate."—A. Enough to do the business of the country then.

Q. Would you mind very much if I ask you a question, based on a statement of Mr. McKenna's; it bears right on this very point:—

> Nothing in monetary practice is more certain than that contraction of the volume of money, or even failure to secure an adequate increase, tends both directly and indirectly to put a brake on business of every kind, and to produce the very troubles—unemployment, unremunerative commodity prices, unbalanced budgets and general depression—which have been apparent in almost every country of the world in the past four years.

Mr. MacMillan: Will you read that again, please.

By Mr. Coote:

Q. Yes:—

> Nothing in monetary practice is more certain than that contraction of the volume of money, or even failure to secure an adequate increase, tends both directly and indirectly to put a brake upon business of every kind, and to produce the very troubles—unemployment, unremunerative commodity prices, unbalanced budgets and general depression—which have been apparent in almost every country of the world in the past four years.

Would you agree with that, Mr. Dodds?—A. Well, I have said repeatedly that there has been an adequate supply of money in this country. Mr. McKenna is talking about the Bank of England, I assume—the great central bank that everybody is talking about.

Q. Well, you agree that the volume of money is of very great importance, I mean the maintenance of a steady volume of money is of very great importance, in regard to maintaining prices?—A. We have the necessary volume; we have the money, and we have the credit if the people only use it. If people will not buy then there is no business and nothing any theorist can say will ever change it. If you do not want to buy you won't buy.

Q. Well, I have a statement here which was made by Sir William Beveridge; it is only one that was made in a series of lectures which were given by Sir Arthur Salter, Sir Josiah Stamp, J. Maynard Keynes, Sir Basil Blackett, Henry

Clay, and Sir William Beveridge?—A. Yes, they all lectured on different parts of the subject, if I remember rightly, because they could not agree with one another if they all lectured on the same thing.

Q. The last lecture of the series was delivered by Sir William Beveridge, and he does agree that there were differences of opinion among them, but he says this:—

> Through all our differences some common principles emerged, and by now you should all have fixed in your minds a few main points.

I want to come to the first statement. "The first point is that this is essentially a money crisis."
Do you agree with that, Mr. Dodds?—A. No, I do not agree with it.

Q. He says:

> Through all our differences some common principles emerge, and by now you should all have fixed in your minds a few main points.
>
> The first point is that this is essentially a money crisis.

A. I do not agree with it, that is all.

Q. Then he has something, later on, to say about different causes of falling prices and he refers to the third cause, and I want to ask you a question on that:

> What we have in this crisis is a change of this third kind, a fall of prices representing deflation of money.

Would you agree with that?—A. Would you mind repeating that again, please?

Q. Yes:

> What we have in this crisis is a change of this third kind, a fall of prices representing deflation of money. That is what we are concerned with in the first instance.

Mr. ERNST: This gets us back to the question of the monetary system.

Mr. MACMILLAN: It is all foreign to the issue.

Mr. PETTIT: Mr. Chairman, our patience is becoming exhausted by this unrestricted unlimited series of questions.

The CHAIRMAN: I have been hoping Mr. Coote would soon be through. Do you think this is at all pertinent, Mr. Coote?

Mr. PETTIT: The witness is endeavouring to answer but he is not a walking encyclopaedia.

The CHAIRMAN: The witness is quite capable of taking care of himself, but I would suggest to Mr. Coote that his questions now are not pertinent to the issue.

Mr. COOTE: All right, Mr. Chairman, I shall bow to your ruling. I would like to ask Mr. Dodds a question or two which, I think, will be in order because they refer to a subject on which he has frequently declared himself during the last few years, and that is the matter of inflation.

By Mr. Coote:

Q. Was there inflation from 1925 to 1929, Mr. Dodds, by the banks?—A. Was there inflation?

Q. By the banks from 1925 to 1929? The total bank loans in 1925 were \$1,135,000,000. In 1929 the total bank loans were \$1,864,000,000. I want to find out from Mr. Dodds if he considers that inflation.—A. Ordinary normal expansion of credit, I would not call that inflation. I would call it inflation if there were tremendous borrowings of more than a temporary nature, without going into a very close analysis of it.

Q. You are aware of the advances under the Finance Act during those years?—A. I am aware that there were advances under the Finance Act. I told you about some of them myself.

Q. At October 31st, 1925 those advances were only $15,000,000. I am speaking in approximate figures; and in 1929 they stood at $90,000,000. Would you consider that that was inflation?—A. In 1929 they were $90,000,000?

Q. On October 31st, 1929, they are given here as $90,000,000.—A. They are given here as $61,000,000.

Q. On October 31st, 1929?—A. No, that is the monthly average. Well, there was a big crop to move. It was one of these temporary things; you can call it inflation, or call it temporary increase of credit. I thought I went into that as closely as anyone could posibly go into it, telling you what happened as far as we were concerned.

Q. You told us of your policy, but still I notice that call and short loans in Canada increased from $130,000,000, in 1925, to $268,000,000, in 1929, as of October 31st?—A. Yes, we had a high point ourselves in 1929. If anybody cares to look at the figures he will notice that our own call loans went up to a high point at that time, but there were a lot of things happening. For instance, to one concern we loaned $1,000,000 against bonds; to another concern we loaned $500,000 against one million dollars of Canadian bonds, and so on; there are special reasons; there were a whole lot of issues being made too at the same time, and there had to be temporary financing for them.

Q. Well, would you say there could not have been inflation, if it had not been through bank credits?—A. Well, there could have been inflation, the government could have inflated.

Q. But the government did not, during those years, did they?—A. No, but you said "could."

Q. The issue of Dominion notes by the government which stood at $320,000,000, in 1920, was, in 1929, only $211,000,000, so there was no inflation on the part of the government; that would be true would it not? There was a contraction of the amount of the Dominion notes outstanding from October, 1929, to 1932, from $211,000,000 to $161,000,000, a contraction of $50,000,000? —A. Yes.

Q. Do you consider that that was deflation?—A. Well, I suppose if somebody had been borrowing under the Finance Act and repaid, one was inflation and the other deflation, according to your wording of it.

Q. Well, I would like very much for you to give me your definition, but that is up to you, Mr. Dodds, whether you do so or not. What percentage of the Bank of Montreal's assets were liquid in your last statement, could you tell us that roughly?—A. No, I will have to get that for you.

Q. Was it greater than it was say two or three years before?—A. I cannot tell you exactly what the figures were, but we can easily get them.

Q. I have taken all the banks in Canada together—and I am speaking from memory now and perhaps you can correct me if I am not right—there has been an increase in the amount of bonds held by them. I suppose you would call those liquid assets?—A. Yes.

Q. An increase of something like $400,000,000 in the last four years?—A. That is true.

Q. And that amount was formerly used to loan to ordinary commercial business?—A. Yes, and we are still wanting to lend it for commercial business. We do not want to buy bonds. When we buy bonds we have the risk of their going down in price, and of having to provide for the loss. We want to sell them and lend the money; we much prefer to lend the money for commercial purposes.

[Mr. Jackson Dodds]

Q. If the Bank Act were changed so that you were allowed to hold bonds only to the extent of your paid-up capital would you make greater efforts to find an outlet for your money in commercial loans?—A. Look here, Mr. Coote, I have said so often, and repeated and repeated, that we are doing all we can to try to get those loans. We have written to our managers congratulating them on acquiring new loaning business. I just happen to have taken a few letters out of a budget that came in the same day, Western letters:—

> We have noticed with interest that you have been successful in placing new satisfactory loans on the books of the branch during the past two months, and you are to be commended on results. . . . It is our experience that one new borrowing account often leads to another and as time goes on results become cumulative with satisfactory effect. . . .
>
> We have noted with interest that you have been successful in placing new satisfactory loans on the books of the branch during the past two months and you are to be commended on results. . . . We hope the favourable trend may continue. . . .
>
> We have followed with interest the steady upward trend of the new loaning business which you have reported during the past two months and you are to be commended on results achieved. The total to date according to our records is $11,576, and we have noted an apparent cumulative effect which is encouraging.

By Mr. Fraser (Cariboo):

Q. What is the date?—A. March, 1934. A good many of these loans have been made to merchants.

Mr. Coote: My next question, Mr. Chairman, is with reference to the order in council No. 2693. May I refer to that? I want to be in order, if I can.

The Chairman: There is no objection to discussing that order now if you want to, but I do think that we ought to deal with this particular portion of Mr. Power's motion by itself.

Mr. Coote: I am quite willing to leave it and deal with it later.

The Chairman: Of course, Mr. Power is not here; this motion is his child. He may want to ask a number of questions in connection with that order in council. I suggest that you leave it until later.

The Witness: I am quite ready to answer now or later on.

The Chairman: Whatever is the wish of the committee.

Mr. Coote: It is just a question based on a paragraph in the order; that is all I will ask at the moment. It is stated in there:—

> That it is in the public interest that a reasonably stable basis of valuation be determined for such high grade of securities.

By Mr. Coote:

Q. You are familiar with the question there:

> That it is in the public interest that a reasonably stable basis of valuation be determined for such high grade securities.

I suppose you would agree that it is desirable? I think anybody would:

> That it is in the public interest that a reasonably stable basis of valuation be determined for such high grade securities.

—A. Oh, yes, I think everybody is agreed on that.

[Mr. Jackson Dodds]

Q. Then I would like to ask this question: Is it not just as desirable that a stable basis of valuation be maintained for the products of industry?—A. Well, you ask me if it is desirable. Yes, I think it is desirable; but I also think it is impossible.

Q. Well, do you think we should make every effort, in so far as it is possible, through the monetary system to do so?—A. Well, we keep on getting back to the monetary system, and I do not want to go on repeating. You have the Central Bank Bill, it is all in there; it is all in the preamble to this Bill. All, apparently, except the bankers, are keen for a central bank and here they have got it.

Q. I am trying to find out how keen you are for this.—A. I am sure you have read my address, Mr. Coote, because you have quoted from it, or Mr. Irvine has. If you have, you will know how keen I was for a central bank.

Q. Yes, but I thought possibly you would be keen to support this view. I am just trying to find out the attitude your bank would take. I would suggest, Mr. Dodds, that it would be most desirable that a stable basis of valuation be maintained, so far as possible, to have stable prices, whether of bonds or goods?—A. Well, it would be a good idea for this committee to do their best to see that the banking Acts are drawn in such a way that they would lend themselves so far as possible to attaining that object. You know if there is a big overhang of wheat you cannot get the same price for it in Liverpool, and I know you have the idea that by manipulation of the monetary system you can do something there. Well, I think it is extremely dangerous. A minute or two ago you were mentioning inflation. At the time you spoke of the stock market, a bull market was created by public psychology and not by the banks. I am still anxious to see that the banks are not blamed for that.

Q. Was it not financed by bank loans?—A. Well, it was what we did to endeavour to restrict that was important.

Q. But you do admit the loans increased, the call loans?—A. That is not quite fair to me, Mr. Coote. I most carefully explained that our call loans, our own particular call loans, reached a high point. And incidentally I might have added that there was another loan of several hundred thousand dollars made by us. If we had not made the loan there would have been financial trouble. We were trying to help old customers out and they are quite all right now.

Q. There is only one other question, Mr. Dodds, and that is whether you consider a stable exchange rate—I will put it the other way, whether a stable price level within the bounds of Canada is more desirable than a stable exchange rate, if we cannot have both?—A. We owe so much money that unless we keep away from inflation the cost of paying off our loans will be prohibitive.

Q. Although you admit we pay them with goods?—A. We do not pay them all with goods. We meet some with borrowed money, and we might not be able to borrow the money.

By Mr. Ernst:

Q. In view of the questions that have been asked, and which I think should have been ruled out of order, I would like to ask one or two questions in order to attempt to clarify the situation. Your view of inflation, if I understand it correctly, is the issue of paper money without regard to the metallic covering?—A. Yes.

Q. That is what you mean by inflation. I know that Mr. Coote means something much more comprehensive. Of course, Mr. Coote's questions, as I understood them, were directed towards showing that inflation would result in the depreciation of our currency and would consequently help our export trade and help those who have a fixed indebtedness to pay within Canada?—A. Yes. That is what I thought.

[Mr. Jackson Dodds]

Q. You are aware, of course, that a great amount of our borrowings have been in the United States?—A. Yes.

Q. Towns, municipalities, and provinces have borrowed?—A. Yes.

Mr. MacMillan (*Saskatoon*): And the Dominion.

By Mr. Ernst:

Q. And the Dominion itself. And is it not correct that we owe at the present time, I am sure, approximately $1,000,000 a day in New York?—A. There was at one time—

Q. Payable in United States funds?—A. Yes, that is about right.

Q. Well, I confess that I believe in a degree of inflation. From your viewpoint, the payment of those funds, or the payment of that indebtedness, in United States funds, would have been impossible had the ratio of the Canadian dollar declined much more than it had in relation to the United States dollar?—A. You saw where it went with the little bit of inflation we had. The premium on funds went up. Interest costs go up as inflation takes place. I say that in the address to which I referred.

Q. You mean the $35,000,000? I am inclined to disagree with you. While I cannot put my finger on it at the moment, my recollection is that the degree of increase of the discount rate from 8 per cent to 13 per cent, when that $35,000,000 took place, was a coincidence and not a result?—A. That is not my own opinion. It was commented on all over the place, and resulted in people selling securities and taking some money out of the country.

Q. My recollection was that the sale of securities came from the man outside of Canada for different reasons, and on a large scale. That is my recollection. I may be wrong. Let us leave that. I think we can agree that if we do inflate, or had inflated—Mr. Coote thinks we ought to—while I think we ought to a moderate extent, our dollar would have declined greater in United States funds? —A. When you interrupted me I was saying that if you have inflation the interest costs go up, and 1 per cent added to our interest on foreign debt would be a vast sum and would take more goods to pay. That is the point I tried to make when I was talking to Mr. Coote.

Q. And would it be correct to say that at any one particular time the balance of trade in our favour would not, might not, enable us to pay our debts at that time?—A. Yes.

Q. And we might have to borrow again?—A. That is the right idea.

Q. So that the question of inflation, or otherwise, becomes one of viewpoint—the weighing of one advantage against the disadvantage?—A. That is right.

By Mr. Baker:

Q. In view of the fact that we are endeavouring to put a little "cheerio" into the committee, and in view of the fact that we have a prominent banker before us, I would like to ask, for my own information: is it not true, Mr. Dodds, that the loans that were made and, perhaps, to a certain extent, over-made to the speculative and the broker businesses throughout Canada have been very much liquidated and are in much better shape than they were?—A. Very much.

Q. It is a rather satisfactory basis, I understand?—A. Yes.

Q. Is it not also true that the business loans which were rather high are now coming down into better shape, reaching a much more healthy state?—A. Yes. I wish they would take an upward trend.

Q. They had excess loans against equities, and are boiling them down to a more healthy state?—A. I would say so.

Q. In view of these two facts, have we not great reason to feel more "cheerio" when these two points arrive at a proper basis where they are off to a better and more healthy start for the future?—A. Yes. I feel we are—

Q. I think we ought to have a little "cheerio".

[Mr. Jackson Dodds]

By Mr. Irvine:

Q. Arising out of this "cheerio," I want to ask a question or two to clear up a point suggested during the questioning by Mr. Coote. Mr. Dodds, I understood you to say, in replying to certain questions of Mr. Coote, that even during what Mr. Coote calls the deflationary period the banks had plenty of money to lend, any amount of money that they wished to expend; is that so?—A. Yes to lend.

Q. And that although they had plenty of money to lend and wanted to lend it, the people would not borrow it or could not borrow it—whichever you wish to say—or did not borrow it; is that so?—A. Whichever way you like—would not or could not.

Q. How would you like to put it?—A. They did not borrow it.

Q. I think you went so far as to say that the reason the people did not borrow it was because they would not trade with each other?—A. That is so.

Q. I think you said that the reason why they would not trade was because the governments of the countries had not got together to make them trade. Now, what did you mean by that? Or had the governments, by their actions, prevented them from trading. Is that what you meant?—A. I thought it was pretty well known that tariffs and quotas—and heaven knows what—were put in the way of ordinary world trade.

Q. That is what I wanted you to say?—A. I thought it was. I was trying to help you.

Q. I want to make the point clear. It is essential that this committee should know whether to blame the government, or the banks, or the people, for the mess in which we find ourselves?—A. I think the best thing to do would be for everybody to take a share of the blame.

Q. I refuse to take any of it?—A. I did not expect you would.

Q. I am glad that the depression, as far as Canada is concerned, is due to the Canadian government's prohibition of trade relations?—A. No. I did not say that at all. You have no right to try to use my view for political purposes in that way. I said that countries would not trade with one another, and the best thing would be if governments would try to get together and arrange so that trading could take place. I do not blame this government. I am not here to approve of this government, or disapprove of it. As far as I know, they may have taken more steps than any other government. I do not know.

Q. I wanted to make sure of what you thought because you left the impression with me that the blame was on the government; you do not think so?—A. I would not like to leave that impression.

Q. The point is that the banks had nothing to do with inflation and nothing to do with deflation?—A. No. The point is that the banks did their best to stop speculation when they felt it was going too far, and during deflation they have loaned money to carry on any commercial business that could put up a satisfactory banking proposition to them.

Q. I understand you further that the banks tried to prevent inflation and did not manage that; they tried to prevent deflation and did not manage that; therefore the banks cannot do anything about deflation or inflation, they are helpless?—A. You said first now that the banks did try to do this and then you say the banks did not do anything.

Q. I was going by what you said?—A. I was going by what you said.

Q. I understood you to say—correct me if I am wrong— —A. Yes, I will.

Q. —that the banks did try to prevent inflation?—A. Yes, and obviously they must have done something, how much I cannot tell you.

Q. You will agree that inflation took place?—A. I will agree absolutely, and I will also agree that if you had already made up your mind that you were going to buy some stocks or shares that nothing I could say would stop you.

[Mr. Jackson Dodds]

Q. Exactly. That is my point. I understand the banks cannot help these things?—A. I say that if a nation makes up its mind to try something, whether a central bank, a new kind of currency, or whatever new fangled thing or old fangled thing you like, that thing will run its course.

Q. I do not know what you mean by a nation making up its mind. My idea is that it has not any mind to make up?—A. I can assure you that it had. When there were big speculations in Winnipeg everybody, from chambermaids to managers was speculating.

Q. The point is that the banks—I am not criticizing their efforts—did try to prevent inflation. Obviously they did not manage to do so. They also tried to check deflation, and since that was not checked, obviously they were defeated. Therefore, the banks are at the mercy of the armies of chambermaids and hotel managers and the general public, both going up and down?—A. To some extent.

Q. I want to know what we can expect of the banks?—A. You can expect the banks to do their best to put a check on it and to make it difficult for people to borrow under those circumstances. You can expect the banks to do their best to help carry on production and trade.

Q. There is only one more question. I think you said, almost in these words: I do not know what will be the end in reference to inflation in Australia?—A. Yes. That is right.

Q. Which, of course, is very true. Nobody knows what will be the end of anything. I would like to ask you then what will be the end, if we continue, in Canada the way we are going now; and whether that end is——A. I do not know what the end will be here either.

Q. The point is that your not knowing the end is not a good argument in connection with inflation since it is also applied to deflation. As long as we do not know the end in either case it would not be an argument?—A. You have endeavoured to prove that the banks did nothing or could do nothing. I differed with you more than once on that because in my judgment the banks' efforts were partly successful in that Canada suffered less than other countries.

The CHAIRMAN: We have left that now, and we have come to another point.

The WITNESS: I would like you to pursue that a little further.

By Mr. Irvine:

Q. I thought, perhaps, some of the members of the Conservative party, in this committee, had taken issue with the suggestion that the government was to blame?—A. I take issue with that.

Q. The point now is—I am going to ask Mr. Dodds this question: when Mr. Coote was suggesting that Canada should have inflated somewhat along the lines pursued by Australia the witness' reply to that was that it should not be done because he could not see the end of such action. He was afraid to risk taking the action. Now, I ask if he can see the end of the policy that is now being pursued, and if that end, as he sees it, is one to be contemplated with fear or otherwise.

Mr. MACMILLAN (*Saskatoon*): Pursued, by whom?

Mr. IRVINE: By Canada and the banks.

Mr. MACMILLAN (*Saskatoon*): Mr. Chairman, we ought to have a political economist on the stand.

Mr. IRVINE: You have. I am questioning him now.

The WITNESS: Deflation is not continuing now.

By Mr. Irvine:

Q. Either you do not get my question or I cannot put it sucessfully?—A. I am sorry.

Q. I am trying to ask you is the fact that you could not see the end under an inflationary policy.—A. No. I know what you meant. What I say to that is this: that history has shown us that when you start an inflation the great difficulty is in stopping it. Australia has started something. You must give a reasonable time to see what the end will be.

Q. I agree with that; but the point is that when you start deflation—not you—but anybody, the public, or the chamber-maid again—when they start deflating we cannot see the end of that either?—A. I have said that deflation is not continuing; that, apparently, we have come to the end.

Q. The point is this, in the fact that we cannot see the end in one case there is as much danger as in the other?—A. No. I do not think there is. I think you get to a certain point in deflation and then people run out of goods and so on and they start to buy.

Q. The same thing must hold the other way?—A. I do not know that it does.

Q. When suffering comes through deflation it is largely the general public who suffer, and when suffering comes through inflation it is the bond holders who have to take up the slack. Is that true?

The CHAIRMAN: If you are going to cover the same ground again, let us know in advance.

Mr. SPENCER: Mr. Chairman, I think my questions cover a different ground, and if they do not—

The CHAIRMAN: Stick to the text.

Mr. SPENCER: If they do not, I will be glad if you will call me to order. I have put my questions down to make them as short as possible, and if I can get direct answers from the witness I will not take very long.

By Mr. Spencer:

Q. First of all, I wish to direct Mr. Dodds' attention to the fact—I understand he is president of the Bankers' Association—that I hold in my hand a little pamphlet entitled "The Bank Act" issued "with the compliments of the Canadian Bankers' Association" in 1924 and sent all over Canada. I wish to refer to three statements in this book. On page 13 it says:—

> "Let us have a guarantee of deposits", exclaim these immature economists, and "it will be a matter of indifference to the creditors whether or not a bank is compelled to suspend payment."

I would like to know who was supposed to make a statement like that, and if it was supposed to be a member of parliament?—A. Just read again.

Q. This is supposed to be a statement made by somebody:—

> "Let us have a guarantee of deposits," exclaim these immature economists, and "it will be a matter of indifference to the creditors whether or not a bank is compelled to suspend payment."

I would like to know who is referred to?—A. I do not know the gentleman. I do not know the particular immature economist referred to. Anyone you like.

Q. What I am trying to get at is this. I am absolutely sure it was not made in a committee of this parliament?—A. Who said it was?

Q. The Bankers' Association spread this all over Canada?—A. They are quoting an immature economist, and they proceed to answer him.

Q. I am sure it was not said by a member of parliament?—A. Who says it was?

[Mr. Jackson Dodds]

Q. It intimates it?—A. Let me see where it intimates. You said it intimates that. Where does it intimate it?

Q. On page 13 of this little book put out by the Bankers' Association?—A. Where does it say that?

Q. I will pass the book over. The next point:—

> Just as a year ago other persons were contending for an unlimited supply of paper currency in order that the impecunious might obtain all the money they desired.

Now, was that supposed to be said by a member of the House of Commons, or the man on the street?—A. You will not even let me see the book. I do not know at whom they were making a crack; do you?

Q. That is what I want to find out?—A. Let me have a look at the book. If you do not let me have a look at the book, answer it for yourself. Now, I have glanced over the first three pages, and I can see no mention of banking and commerce committee or a member of parliament, or any other immature economist.

Q. I want to ask Mr. Dodds what is the object of the Bankers' Association in publishing a pamphlet like this and sending it all over Canada like that.

Mr. MacMillan (*Saskatoon*): Was it the result of the last revision of the Bank Act?

The Witness: Yes.

By Mr. Spencer:

Q. At the end of this little pamphlet this statement is made with regard to western Canada:—

> Western Canada has all the advantages of a new country; its marvellous fertility has not been impaired, it is not over-capitalized, it has not hopelessly mortgaged its future by building hard-surfaced roads. It stands to-day capable of making a most surprising comeback, for it is on a sound basis.

I would like to ask the witness if he supports this statement?—A. All I can say about that booklet would be this: I had nothing to do with the producing of it. I would say that these are hypothetical questions with no reference to members, and designed to clear up popular misconceptions, and I think that was the feeling about western Canada at the time.

The Chairman: And probably true.

The Witness: Yes, true.

By Mr. Spencer:

Q. What happened in western Canada to prohibit the banks advancing credits to agriculture; apparently, from this statement, the banks considered western Canada was a good place for investment?—A. Yes. I got this clipping from a western Canada newspaper yesterday:—

> Obviously it is the intention to give the board the power to destroy existing contracts or to rewrite them on any terms the board may deem fit without consideration of the wishes of the parties involved. Contracts are to be left without validity. The right to use the courts is to be denied to any aggrieved party. A government board is to be set high above the judges of the province and of all the machinery built up during the centuries for the administration of the law.
>
> In view of what is taking place it might be just as well to abolish most of our courts. If courts are not competent to deal with matters that have been regarded as within the normal processes of the law they might as well be wiped out and the money saved to the people.

That is what a newspaper says.

[Mr. Jackson Dodds]

By Mr. Ernst:

Q. Concerning what was that written?—A. It was written with regard to this new legislation in Saskatchewan.

By Mr. Spencer:

Q. The other day when you answered a question of Mr. Irvine, I understood you to say that you considered money as a medium of exchange?—A. Asked by Mr. Irvine?

Q. I think the record will show that is what you said?—A. I agree to that description of it in part.

Q. Would you say that anything that functions as money is money?—A. Did we not—

The CHAIRMAN: Did we not agree not to go into anything theoretical.

Mr. SPENCER: I want to lay the basis for my question.

By Mr. Spencer:

Q. Would you say anything that functions as money is money?—A. Yes, I think so.

Q. Now, the different forms of money a man can have are coin, currency and credit?—A. I will lend you a nice little booklet I wrote on "What Women should know about Banking." It deals with that.

Q. You say yes to the question. Would you consider currency as note issue? Would you refer to Dominion notes and bank notes as currency?—A. Yes.

Q. With regard to these two, I take it that we have the two types, Dominion notes and bank notes?—A. Yes.

Q. And the Dominion notes are governed by the amount of gold on hand, and, secondly, under the Finance Act; am I correct?—A. There is a fiduciary issue too.

Q. I am aware of that. With regard to bank notes, I believe they are covered by the following three references: first of all, an amount equal to the capital of the banks, secondly, an amount equal to 15 per cent of the paid-up capital and reserve which runs for six months of the year?—A. During the crop moving season, so called.

Q. And thirdly, an amount issued against gold or notes which are placed in the central gold reserve?—A. Yes.

Q. The paid-up capital of the banks to-day, I believe, is 144½ million dollars?—A. I think that is what we said the other day.

Q. I know that is correct. The total rest and reserve fund in the banks is 132½ million dollars?—A. Yes.

Q. Would the total of subsidiary coin be between, say, thirty and forty millions—it varies very little, I believe?—A. Gold and subsidiary coin, June 30, was fifty millions, and gold—current gold and subsidiary coin in Canada was forty millions at the end of January, 1934.

Q. How much of that would be gold?—A. I do not remember. Let me see. It is not sub-divided.

Q. There would not be very much of gold?—A. Would not be much?

Q. There would not be very much of gold?—A. I told you the Bank of Montreal have $13,000,000, if that is any help to you.

Q. The amount of subsidiary coin, small coin, varies very little, either in inflation or deflation periods. The largest part of money I take it, therefore, is credit drawable by cheque?—A. I beg your pardon?

Q. The largest part of money I take it, therefore, is credit drawable by cheque. Would you admit that?—A. You always use that word credit, and I am always objecting to it.

[Mr. Jackson Dodds]

Q. Use whatever word you like; give a name if you like to that type of money.—A. The deposits people have to their credit in the bank.

Q. Would you admit, then, that cheque money is our largest medium?—A. Yes. I think those figures are all available.

Q. Would you support the statement Sir Edmund Walker made in 1923 in this room that 96 per cent of our whole business is done by cheque?—A. No. I would not support it because I do not know what the figure is. I would have to look into it. I do not support everything Sir Edmund Walker said.

Q. Would you support it if I said Mr. A. E. Phipps confirmed that, in 1928?—A. No. I would say that was the case in 1928. What it is now, I would not say. I think it is a very large percentage, if that will help?

Q. Around about what?—A. Well—

Q. The banking system is largely one of bookkeeping, is it not?—A. In other words, you suggest that I am a glorified bookkeeper.

Q. I do not mind what name you give to it. We are talking on facts now. The banking system is largely a matter of bookkeeping, you must admit that?—A. You cannot lend money by bookkeeping; you have to do it by common sense.

Q. I am not talking about lending money by bookkeeping?—A. You said banking.

Q. You admit that the banking system as it is in use is a matter of bookkeeping?—A. No. We have to have bookkeeping in our banking system, but our banking system is not just bookkeeping.

Q. We will accept that for the moment. You will admit that that very large amount of business is done by cheque, and that the coin and notes really largely make up pocket cash?—A. I told you we had $13,000,000 of gold in the Bank of Montreal.

Q. But you do not use the gold as pocket cash?—A. You said that gold coin was largely pocket cash, and I say it is not; it is in the banks.

Q. In relation to the other amount?—A. In relation to the other amount, it has a pretty good relationship.

Q. I will give you figures to show it has a very small relation?—A. Out of $15,557,000—out of $15,147,149, $13,0000,000 is in gold. I would say the boot is on the other foot. It is mostly gold.

Q. $13,000,000 in gold. With regard to notes and coin, would you say they are given the value by statute?—A. There is a statutory value to the coins.

Q. And, of course, the paper money is entirely given value by statute?—A. There is gold behind our paper money.

The CHAIRMAN: The gold has been given a value by statute too, I take it?

The WITNESS: There is a fixed value by statute.

By Mr. Spencer:

Q. Would you say all new money comes from the banking system to the public?

Mr. MACMILLAN (*Saskatoon*): What about the gold mines in Ontario?

By Mr. Spencer:

Q. Would you say all new money comes from the banking system to the public?—A. Not necessarily. I might have some things and sell them to some other country and bring the money into this country in the form of gold or something else.

Q. Would you say the total loans sometimes equal nine or ten times the amount of bank notes in circulation?—A. Now, everybody will be happy. I should say they do at times. I think loans do at times amount to nine times.

Q. I am glad you admit that, because I notice that the present Secretary of State, speaking at the Canadian Club in Toronto on November 13, last year

made the statement that on September 13 last the notes in circulation for all Canadian chartered banks amounted to $141,000,000, and the total liabilities aggregated $2,849,000,000, or over twenty times the amount of the note issue. I have some questions to ask, particularly because I think there is a great misunderstanding on how money is written into existence or out of existence.

The CHAIRMAN: Now, Mr. Spencer, in fairness to this committee and in fairness to yourself, how far are you going with this, because this does not come under the reference at all. I am bound to tell you that.

Mr. SPENCER: Mr. Chairman, if I can prove that the bankers do write money into existence, or write money out of existence and, therefore, affect prices, surely it has something to do with this reference.

The CHAIRMAN: Maybe it has.

Mr. ERNST: It is a question of whether prices affect the bankers or bankers affect the prices.

By Mr. Spencer:

Q. Would you explain the effect of a loan on the money system; does it increase the sum total of money in existence?

Mr. BAKER: Are not questions of theory being asked all the time, Mr. Chairman?

The CHAIRMAN: That is exactly the position.

Mr. BAKER: That is what has been going on all morning.

The CHAIRMAN: I do not like to shut off these questions, however.

Mr. SPENCER: If the witness does not want to answer I shall go on, Mr. Chairman.

The WITNESS: Your question reminds me of the old riddle, which comes first, the hen or the egg? That is about it.

By Mr. Spencer:

Q. I will again quote the Secretary of State who, I think, is a pretty good witness.—A. Now, now. You say he is a pretty good witness. You mean he is a pretty good authority on financial matters and so on?

Q. Yes.—A. I do not think he would want to be quoted as an expert financial man. He would prefer if it were said that he was an eminent Secretary of State or King's Counsel. I never heard him claim to be an authority on matters financial, although he certainly has some knowledge of them.

Q. Well, he certainly would not go to a public meeting and make a statement— —A. You had better ask him about it.

Q. I will quote what he said with regard to this very statement.—A. I read that speech and I do not agree with everything he said in it.

Q. I will read it again to make the record complete:

> The prevalent conception that bank deposits may only be created by actual deposits of specie, or its equivalent in Dominion notes or foreign exchange is quite erroneous. The bank returns for December 30th last disclose that the banks held only $49,000,000 in specie and $127,200,000 in Dominion notes, or a total of approximately $176,000,000 in specie and notes, while their current loans and discounts were $1,428,000,000 which was a reduction of $932,000.000 in the amount of current loans and discounts on September 30th, 1929.

If the witness does not want to support that statement, or deny it— —A. I do not want to express any opinion on it.

[Mr. Jackson Dodds]

Q. Would you say that every loan, therefore, creates new money in addition to the total in existence? It is an all important question, Mr. Chairman. If I do not get an answer to it I might as well put away the paper.—A. I do not see that I am bound to answer.

Q. There is the whole crux of the situation, that we are trying to prove whether banks can write money out of existence or into existence. The witness refused to answer the question and, that being so, we cannot get anywhere.

The CHAIRMAN: Mr. Spencer, this, of course, is foreign to the immediate enquiry. I have tried to tell you that.

Mr. SPENCER: I do not agree with that, Mr. Chairman.

The CHAIRMAN: Well, go on.

Mr. SPENCER: It rather ties me up if he refuses to answer the question. If he will only answer yes or no then I will know what attitude to take.

By Mr. Spencer:

Q. Do you claim, Mr. Dodds, that the more loans that are made the faster deposits grow?—A. The more loans that are made, if presumably the loans are being made for productive purposes and will result in more savings, in that sense yes.

Q. And on the other side, the more loans that are cancelled.—A. Who cancels loans?

Q. Well, put it this way, the more loans that are paid off to the banks, the volume of money in existence reduced thereby must be of an equal amount, would you admit that?—A. The money comes in and is loaned to somebody else.

Q. Then you would say, if a loan is repaid it does not reduce the amount of money in existence?—A. It might.

Q. Well, I will go on. Do you agree with the statement of an honourable gentleman who has been quoted here before, Mr. McKenna, when he says:

> The amount of money in existence varies only with the action of the banks in increasing or diminishing deposits.

A. I did not quite catch that.

Q. He says:

> The amount of money in existence varies only with the action of the banks in increasing or diminishing deposits.

A. Mr. McKenna says that the money only decreases according to the banks loaning or not loaning.

Q. Every time the bank loans, he says.—A. Did you say "only"?

Q. He says:

> The amount of money in existence varies only with the action of the banks in increasing or diminishing deposits.

A. I would say that is just plain rubbish, because if I happen to come into the country with a whole lot of gold the banks had nothing to do with it. That is just on a par with what has already been suggested that he makes statements to arouse discussion and draw attention to his bank.

Q. He goes on further to say:

> Every banking loan creates a deposit and every repayment of a bank loan destroys one.

Would you admit that:

> Every banking loan creates a deposit and every repayment of a bank loan destroys one.

A. Every bank loan creates a deposit and every repayment of a bank loan destroys one? Well, every bank loan creates a deposit momentarily because you put something to a man's credit. But he draws on it and he pays off somebody else.

Q. Let me put it plainer if I can. I am sure the witness knows exactly what I am trying to get at.—A. Please do not start flattering me after three days of this.

Q. Suppose a country bank has $50,000 on deposit, a farmer comes in and wants a thousand dollars; he puts up ample security and the manager says he will give him a loan, and he credits the man with a thousand dollars. Does the bank then have $51,000 on deposit, or does it have $49,000, or $50,000?—A. I did not catch a few words in the middle of the question.

Q. When the customer of a bank gets a loan by putting up ample security, say a loan of $1,000, is he not credited with $1,000?—A. He may be, but the point is, that is not credit created. The credit was earned by the borrower. The substance must come first on which to base the credit.

Q. Yes, but I am talking of financial credit.—A. The banks do not create the credit. The potential borrower must have it before he can borrow.

Q. The man comes in with his real credit and he places it in the hands of the banker and the banker then advances him $1,000?—A. Well, there is the credit. The bank did not make that credit.

Q. The bank gives him financial credit to the extent of, say, $1,000 which is less than what the security amounted to. The bank puts the $1,000 to his credit. Does not that enable him to draw that amount out, but does it not increase the total amount of money in existence?—A. Do you think he borrows the money to leave it there? If he borrows the money he borrows it to pay off somebody else.

Q. And if he pays it to somebody else?—A. Then it comes back to the banker and another note is paid.

Q. But still it increases the total of money.—A. It might continually decrease. I might loan the gentleman on my right a thousand dollars and he might pay off the gentleman on my left who pays me back and there you are, you are all square.

Q. What happens then when a loan is repaid?—A. As far as my recollection of these things is concerned, in normal times no sooner do we get payment of one loan than there is somebody there ready to borrow it.

Q. Do you agree, or do you not agree, with the following statement? I might say this is by the same authority—Mr. McKenna:

> When a bank loans financial credit, it increases the total amount in circulation.

Would you say yes or no:

> When a bank loans financial credit, it increases the total amount in circulation.

A. I do not say that it necessarily increases the total amount in circulation. A man might put it to his credit or somebody else is paid; how does it increase it if I lend you a thousand dollars and you pay the gentleman on your right a thousand dollars and he pays me back? The whole thing is complete. It does not increase in that case, so I do not agree with him in all he says.

Q. This statement was made at a general meeting of the shareholders of the Midland Bank?—A. It is of no importance where it was made.

Q. In 1925, 1926 and 1927?—A. I do not care, it makes no difference in my opinion what Mr. McKenna said; there are a lot of people who do not agree with what Mr. McKenna says.

[Mr. Jackson Dodds]

Q. Then you disagree with this statement, I take it:

> When a bank receives repayment of financial credit it decreases the total amount in circulation.

A. Obviously it may or may not. It all depends on what has taken place, as I explained before.

Q. He also makes this statement:

> Financial credit repaid to banks is cancelled. It no longer exists even in the records of the banks.

Would you admit that?—A. Financial credit repaid to banks is cancelled?

Q. Yes, financial credit repaid to banks is cancelled. I will put it another way.—A. Do you mean to say that if a man comes to the bank and pays his note the note is cancelled.

Q. Yes, and the amount of money equal to the note is written out of existence?—A. Written out of existence?

Q. Yes. Then the further statement by Mr. McKenna:

> Repaid bank loans destroy deposits.

A. If a man had a thousand dollars to his credit and he owed the bank a thousand dollars and he turned in his note on the thousand dollars the note would have been paid.

Q. I will switch for the moment from Mr. McKenna and get another authority.—A. Well, you need not bother.

Q. Because I would like to find some authority with which you do agree. I am now quoting from the MacMillan report, not of Canada but of Great Britain?—A. Another document the authors of which I said before could not agree.

Q. But they came to certain definite conclusions and they agreed?—A. Well, they compromised I would say.

Q. May I read this:

> It is not unnatural to think of the deposits of a bank as being created by the public through the deposit of cash representing either savings or amounts which are not for the time being required to meet expenditure. But the bulk of the deposits arise out of the action of the banks themselves, for by granting loans, allowing money to be drawn on an overdraft or purchasing securities a bank creates a credit in its books, which is the equivalent of a deposit.

Do you accept that?—A. That is a very long thing and if I have to grasp all that at once you will have to read it again.

Q. Very well:

> It is not unnatural to think of the deposits of a bank as being created by the public through the deposit of cash representing either savings or amounts which are not for the time being required to meet expenditure. But the bulk of the deposits arise out of the action of the banks themselves, for by granting loans, allowing money to be drawn on an overdraft or purchasing securities, a bank creates a credit in its books, which is the equivalent of a deposit.

—A. May I read it myself; I find it difficult to hear you. I should say the answer to that probably is, that banks secure deposits from the public and lend them to those who have built up substance on which to borrow.

Q. Then if loans are only made from pre-existing deposits the amount of money would not increase, would it?—A. I do not say that that is the only way.

[Mr. Jackson Dodds]

Q. Well, what other way might money be put into circulation?—A. I have made ever so many suggestions that money can come into circulation through the sale of the produce of the country and the gold being brought into the country in payment of it. That is not done by the banks.

Q. But you admit that money is paid out largely through the banks to the public?—A. Pardon.

Q. You admit that money is paid out from the banks to the public?

The CHAIRMAN: Repeat that please, Mr. Spencer.

By Mr. Spencer:

Q. You admit that most money is paid from the banks to the public?—A. Yes, I agree that most of the money is paid in that way, that is, the machinery of the banks pay on behalf of somebody else.

Q. Well, I have a statement in front of me which I would like to put on the record, Mr. Chairman:

BANKING INFORMATION

(Millions omitted)

—	Demand deposits	Savings deposits	Total deposits	Loans	Gold	Securities held	Advances under Finance Act	Dominion notes outstanding	Total bank notes
Page.........	B	C		A	H	D	G	F	E
Year									
Oct. 31, 1926.	575	1,347	1,932	1,229	119	506	24	193	187
" 31, 1929.	785	1,470	2,255	1,864	62	487	90	211	185
" 31, 1932.	493	1,370	1,863	1,291	73	726	27	161	133
" 31, 1933.	....	....	....	1,160	....	881	....	....	....

CANADIAN BUSINESS

Loans increased between 1926 and 1929 by 635 millions
" decreased " 1929 and 1933 by 704 "

1934

Reserve.................................... 132 millions
Paid-up capital............................ 144 "

That is a summary of figures which Mr. Irvine wanted to get and which were to be submitted by Mr. Tompkins. The figures are taken from a return tabled in the House, and if the Chair will allow I would like to put those figures in as I would like to ask a few questions on them. First of all, I would like to ask the witness if he considers that the financial system should be used primarily for the production and distribution of goods and services?—A. You have the happiest faculty of getting back to asking questions that have been answered six or seven times.

Q. It is a very easy question to answer.

Mr. ERNST: Does not that come back to the question of a monetary system?

The CHAIRMAN: No doubt about that.

Mr. IRVINE: Who is responsible for the monetary system?

The WITNESS: I said in my opening statement:—

> In less active times the requirements of business are not so heavy and the bank has more funds to spare, but at all times the legitimate requirements of business people have the first claim upon our resources and in this it must be borne in mind that the banks derive their power from the governments and are given charters in order that they may

> perform a useful public service—mainly in two ways: first, to provide a safe place of deposit for the people's money, and second, to use that money in facilitating production and commerce.

I have reiterated that time and again and, therefore, I think that I have some merit in my statement that you should not keep on asking me to repeat.

By Mr. Spencer:

Q. Then do you still stick to the statement that loans are made through pre-existing deposits only? Do you still say that loans are made from pre-existing deposits otherwise the loan is money deposited by somebody else?—A. I said to some extent.

Q. To what extent? Can you give me a rough idea?—A. No.

Q. You stated the other day in answer to a question, I think by Mr. Irvine, that you believed in the gold basis. I will be perfectly satisfied with the answer yes or no.—A. I said gold standard, not gold basis.

Q. Well now, does the gold standard mean that if an increased amount of money is going to be put in circulation we would have to have an increased basis of gold?—A. I said the gold standard was a sound basis, and Mr. Irvine, on page 302 of these minutes, is shown as asking me a question with regard to sound money. My understanding was that he made a statement and did not ask a question. In any case I did not pursue the matter, as he almost immediately stated that he believed our Canadian money is sound and I had already expressed similar views; I thought this would be enough for the committee. I believe our money to be sound because it is backed by gold despite the fact that we have a fiduciary issue of $635,000,000 which, however, under the new Bank of Canada Act, will be covered by Dominion of Canada bonds, and the $35,000,000 Treasury Bills, against which the banks borrowed from the government a similar amount under the Finance Act.

Q. Well now, taking the years from 1926 to 1929, when there was a very large increase in the total money in existence, you say it would be necessary in the ordinary course to have an increase in gold?—A. If we were on the gold standard, in the ordinary way.

Q. May I ask if we were on the gold standard between 1926 and 1929? —A. Well, you know when we came off.

Q. I believe we were on the gold basis at that time in 1926. I notice, however, that loans increased between 1926 and 1929 and that gold dropped no less than $57,000,000. I would like to know how it was done if we were on the gold standard and we dropped $57,000,000 in gold and increased the total amount of money in circulation by $35,000,000.—A. I do not remember the details. I do not know what Mr. Spencer is driving at.

Mr. HACKETT: Mr. Chairman, I move we adjourn.

Hon. Mr. RHODES: I was going to suggest, Mr. Chairman, that this committee has been called primarily to deal with the Bank Act and the Bank of Canada Act. We have hardly touched them in the last three or four days, and in fairness to the committee itself which has a considerable amount of work to do—as well as to the witness, who has been on the stand for three successive days—it seems to me that if every honourable member were to exercise the same right as that which is now being exercised by some honourable members, we will be here till the snow flies again and not touch the Bank Act at all. It seems to me there must be an end to this species of question.

The CHAIRMAN: We will adjourn till four o'clock, and I hope Mr. Spencer will not continue this line of examination, because I will have to rule it out of order.

AFTERNOON SITTING

The committee resumed at 4 o'clock p.m.

The CHAIRMAN: Gentlemen, we should proceed and make some progress. Have you any more questions to ask, Mr. Spencer?

Mr. SPENCER: Just three or four. In deference to you, Mr. Chairman, who have been so fair to the committee, I am going to bring my questions to a close as quickly as I can. With reference to the figures I was speaking about when the committee rose at 1 o'clock, I would like to point out to the witness that between 1926 and 1929 when the total amount of loans increased by $635,000,000 that the Dominion notes increased only $18,000,000 and bank notes decreased $2,000,000. I would take it from this that it is possible to increase the amount of money vastly without increasing the amount of paper money in the way of notes; is that correct?

Mr. ERNST: It comes back to what is meant by money.

Mr. SPENCER: Anything that functions as money is money.

Mr. ERNST: I am only wondering if you and the witness are thinking of money in the same terms.

The WITNESS: Just what was the question again?

By Mr. Spencer:

Q. I will try to put it in other words: do you realize that when the loans were increased by $635,000,000 between 1926 and 1929 that Dominion notes increased only $18,000,000 and the bank notes actually dropped by $2,000,000. Is it possible to increase vastly the amount of money in circulation—that is, anything that functions as money—without very much increasing the note issue?—A. Well, you are speaking of money in terms of loans. That is obvious from that.

Q. My point again is that our money system is largely one of bookkeeping, and that subsidiary coin or notes are simply a matter of pocket cash?—A. I see.

Q. This moring the witness, although not denying entirely—I want the witness to correct me if I am wrong in the words I am giving—although not entirely denying that loans create new money, at the same time rather inferred that most money was created by lending deposits; am I correct?—A. You say I inferred what?

Q. That most money was created by lending deposits—most loans are made by lending deposits, if I understood?—A. You have to have the deposits or you can't make the loans.

Q. That is my point. This is a question I would like to get an answer to. If that statement is correct that the witness has just made, I would ask him, if loans are created from pre-existing deposits, how can they increase from $1,229.000,000, in 1926, to $1,864,000,000, in 1929, an increase of $635,000,000, and yet leave on deposit a sum of $2,225,000,000?—A. Well, the loans increase because the deposits increase, or, rather, I should say, we have the deposits, so we can make the loans. That is what I meant to say.

Q. But, at the same time, if you loaned the deposits they would not increase, and I find the deposits actually increased by $323,000,000 at the same time?—A. Well, I repeat we can only lend the money we have on deposit, plus what other moneys we may have, our capital and so on, as I explained before.

[Mr. Jackson Dodds]

Q. I bring to my rescue one or two statements before I close. Referring to the Secretary of State's very notable speech in Toronto, he made the statement: "The result is that in modern practice 70 or 80 per cent of the aggregate of all deposits shown in the Canadian bank returns represent in reality the amount of loans made by the banks then outstanding. In consequence, bank deposits consist largely of credit money which has been created by the banks."—A. Who said that?

Q. The Secretary of State?—A. Very interesting.

Q. Do you approve of that statement?—A. No. I have repeatedly said that we lend only the money we have on deposit.

Q. You would also disagree with the statement of J. Maynard Keynes, the world famous economist, when he said that no doubt all deposits are created by the banks?—A. I would certainly disagree with him.

Q. And lastly, I would like to quote from the Encyclopedia Britannica 14th Edition, under the heading "Banking and Credit" in which it says, "Banks create credit. It is a mistake to suppose that bank credit is created to any important extent by the payment of money to the banks (i.e. deposits). A loan made by the bank is a clear addition to the amount of money in the community." —A. That is one man's opinion. You would probably be surprised to learn that I helped to prepare something for the Encyclopedia Britannica.

Q. It wasn't for this edition, however?—A. It did not happen to be that one.

Q. I thank the witness for doing the best he could to answer my questions? —A. Thank you.

By Mr. Power:

Q. Mr. Dodds, to return to the consideration of the particular item of the motion which is the inquiry as to the general policies adopted by chartered banks to combat the effects of the depression, and to what extent the said banks are responsible for the drastic deflation from which the country suffered and is still suffering. I should like to inquire as to whether or not the banks were responsible. So that we will not misunderstand each other I just want to put plainly what I am inquiring about. There has been a general complaint throughout the country that owing to the policies of the banks during the period of depression, the calling in of loans and so on, that they assisted in the depression, accelerated the depression rather than otherwise. Now, having due regard to your primary obligations towards your depositors, the questions I wish to ask are on more or less concrete subjects to find out, for my own information, whether or not there is anything in that accusation. I think that is a fair way of putting it?—A. If I remember rightly I did not have the pleasure of seeing you here when I went into that at great length. That is what the whole of my opening statement was upon, and I emphatically denied that banks were responsible for the trouble.

Q. I quite understand that.

The CHAIRMAN: Plead not guilty.

By Mr. Power:

Q. No. I will say this much, I have been seventeen years in this House and I have never yet been accused of having read Hansard or any report— —A. I will be very glad to give you a copy.

Q. Or even my own speeches. Let us start with the stock market crash in 1929, October, 1929. Sometime after the crash, I think it was, probably, in 1931, the firm of McDougall and Cowan smashed in Montreal. I think it was in 1931, October, 1931.—A. I think that is right.

Q. I think it was about that time that stocks on the Montreal stock exchange were pegged?—A. I think it was in the fall.

[Mr. Jackson Dodds]

Q. When were the stocks pegged? I am under the impression it was about the time when McDougall and Cowan failed.

Mr. Tompkins (*Inspector General of Banks*): It was the time England went off the gold basis, September 21st or thereabouts.

By Mr. Power:

Q. It was at that time stocks were pegged on the Montreal stock market, and I assume also on the Toronto stock market, though I have no knowledge. Was that done after consultation with the banks?—A. I believe, if my recollection serves me rightly, and I think I am right in this—the president of the stock exchange did come around to the bank, and my recollection is that he was told they would have to make their own decision.

Q. Was not there some kind of understanding which is known in the trade as the "Luther Agreement" or the "Luther Understanding" made between the banks in Montreal and Mr. Luther, at that time president of the stock exchange, to the effect that stocks would be pegged and held. Brokers would be allowed to hold them as collateral at the price on the market?—A. I think what we said was every bank would have to look after its own customers in the matter; and, as far as we were concerned—I am speaking of the Bank of Montreal at the moment—we have always endeavoured to carry our customers along and save them from any serious catastrophe, and we were not going to change our policy, but that in cases where we could we would improve our security position and endeavour to get further security; but in a general kind of way, without coming under a definite commitment, that we would carry stocks in the meantime.

Q. Based on the pegged price, you would carry the stocks?—A. No, we would carry along on the basis that we had the loans. In some cases we might have, say, 50 per cent margin, and in other cases we might have a 25 per cent margin. We were not going to carry an account, let us say, just on the basis of the pegged price.

Q. I will give you a concrete example. A man bought 100 shares of Dominion Bridge. It was pegged at that time at 27, and giving as security, say, a Dominion government bond worth $1,000. That was considered sufficient security at that time, say, 30 per cent. Taking the bond—I suppose a bond worth $100—the collateral value would be about $80. Did you carry the broker then, or would you carry the broker on that basis?—A. If a broker came around for fresh loans at that time I do not think we would make fresh loans of that nature. If we had the loan on our books we would endeavour to carry him along; but to take a new obligation on the basis of the pegged price we would probably decline.

Q. That is to say that, if the broker wanted to deal with you, you would probably ask him for $1,500 worth of bonds?—A. At that time—I am not just clear as to this—but I shall have to refer to the figures I have given—but at that time we were not increasing our brokerage loans. As I said we started in 1927 to realize that the thing had gone far enough. When it got to the time that stocks were crashing down we just endeavoured to steady the position. We endeavoured to avoid getting into a worse position.

Q. There is no truth in the statement that the banks entered into some undertaking, or gentlemen's agreement, with the stock exchange whereby the pegged prices were to be maintained afterwards; and this is the accusation, that afterwards the banks, on their own account, sold on the street, or between themselves, at prices much lower than the pegged price, and so broke the market and lowered the value of securities considerably throughout the country?—A. Oh, no.

Q. You do not agree with that statement?—A. No.

[Mr. Jackson Dodds]

Q. Is there any truth in it at all?—A. No, the position is exactly as I have explained it.

Q. I would like a fair answer to my question?—A. I am trying to give you a fair answer.

Q. This is not an hypothetical question, this is a statement commonly made in public. It is a statement which may, or may not, be true, and it is part of our duty, I think, to inquire into it, and that is why I am asking the question. I would honestly like to get the bankers' view as to whether in it there is any truth. If there is no truth in the statement it will be broadcast?—A. We simply carried along our customers on the basis I have told you, and we endeavoured to get security and so on. I have no knowledge myself of our going out and slaughtering the stocks or doing anything like that. We carried our customers along.

Q. Do you think any banks did that?—A. Not to my knowledge.

Q. Is it not a fact that some time around 1931, or 1932, at a meeting of the Bankers' Association, a very prominent banker, whom I will not name but whom I shall call later, expostulated with his colleagues for having done that same thing, sold stocks below the pegged market price. Have you any knowledge of any such meeting being held or any such discussion?—A. What date was that?

Q. It would be some time after the pegging of prices, and after this so-called arrangement with the stock market?—A. I do not remember a meeting where that happened.

Q. You do not remember a meeting where that happened?—A. No.

The CHAIRMAN: Mr. Power, may I suggest that you be more specific if you can, because it is only fair to the witness that it should be called to his memory.

Mr. POWER: There is a certain amount of evidence in all this which I have obtained which is of a purely personal character and which I cannot divulge, and I may not be able to go any further. I may have to obtain the permission of the person who told me.

The CHAIRMAN: I mean as to indicate this.

The WITNESS: I understand you are going to ask the gentleman who is supposed to have said it. Would not that be the best way?

By Mr. Power:

Q. I am hoping to be able to get him. In any case, as far as you know, there is no truth in either the accusation or the statement which I now make that a certain prominent banker expostulated with his colleagues on this practice?—A. No. I have no recollection of it.

Q. Now, let me ask you another question which is, perhaps, more theoretical. When you felt called upon to call your loans to certain clients, small or big— largely smaller—and those loans were supported by collateral security, bonds, etc— —A. One minute, Mr. Power. Calling loans. Are you speaking about stock exchange loans?

Q. Stock exchange loans or, even, business loans, let us say that are supported or backed by bonds, securities of some kind—when you felt called upon to call in a man's loan, and the result of which was he was forced to sell?—A. I do not remember actually calling loans.

Q. You do not remember actually calling loans?—A. No. As I explained, I told our managers that the thing had gone far enough, that they were encroaching on money required for ordinary commercial business and we wanted to see a gradual reduction. I imagine, without actually calling them, the reduction gradually came about; but to call and sell people out, brokers out, I do not remember doing that.

[Mr. Jackson Dodds]

Q. Well then, suppose we take common ordinary lawyers like myself who have say a two thousand dollar loan and had three thousand dollars collateral. —A. I would not call them common or ordinary lawyers, but a lawyer if you like.

Q. Well, would you force me to pay you, would you call my loan and force me to pay you off?—A. If I had an arrangement with you that I would lend the money, and you were to maintain a certain margin, and as the margin became lower, gradually began to disappear and, as I say, my arrangement with you is that you will carry a sufficient margin and I will carry your loan, you are speculating in the stock, you are not keeping your margin up, then I would say to you you must find the necessary margin. It is obviously the only thing for you to do to sell something.

Q. Would you sell or just naturally force— —A. Not naturally at all. We do not sell out in every case. In many cases, as I have explained before we did not call; we carried them along; we carried very many of our customers.

Q. May I ask you why you carried them along?—A. Because we believed that they would repay us in time and we thought that things would come around again.

Q. It is not fair to say that in most cases you carried them along because you did not want to depress securities?—A. It is absolutely incorrect to suggest that we were interested in any of these securities; we were not. We have not a large holding of securities other than bonds, short term bonds.

Q. You had securities held as collateral, had you not?—A. Yes.

Q. And if you called in the loan of a customer who had Dominion government bonds would it not have the effect of depressing other customer accounts and forcing them to put up more margin?—A. Not necessarily. For instance, a customer might be selling bonds and if I had the money, I might be buying bonds.

Q. I am not saying you did it. I am asking you as to the general effect. I know you bought bonds, you loaded up with bonds; that is one of the troubles of the banks.—A. That has not been an altogether bad thing for the country.

Q. Possibly not, but is it not a fact that by selling out one customer you depress one customer who holds securities and thereby depress the securities of the other?—A. Obviously if many have to sell at any time it has a cumulative effect; if a lot of people are selling and putting down the price, there is no getting away from that.

Q. That is all I want to get at, in so far as securities are concerned. Now then, let us come to a commodity—lumber. You must have had lumber accounts, I assume?—A. Yes, I have heard of the business all right.

Q. Well, as I remember, in 1929 when business was not good, is was not good in 1930 but had started to go bad, and in 1931 it was very bad, and in 1932 well, it was hopeless. Now, I put it to you—and I am speaking of all the banks not only of the Bank of Montreal.—A. Well, it is pretty hard for me to answer for all the banks, is it not?

Q. Well, in 1931, generally speaking was it not found that there had been an over production of lumber and there had been less sales because building trades were not being carried on, and one thing and another, and lumbermen holding large stocks of lumber, at least the banks holding large stocks of lumber under Section 88 forced these lumbermen to put their stocks on the market, is that so?—A. I do not think that you can exactly say that they forced them to put them on the market. I think that they showed them that if they stayed in the position they were in and lumber went down as it was likely to do with the new wood coming in, and one thing and another, the price would be much worse and probably the man who sold in the earlier stages on the suggestion of the bank was in the end better off.

[Mr. Jackson Dodds]

Q. I think perhaps you are right, but when you come to 1931 and 1932, during which years I understand the policy of the banks generally was not to encourage any further production, that is to say, they would not loan lumbermen generally any further funds for wood operations in the winter of 1931 and 1932; I think you will agree with me that that was the policy pretty well?—A. I know we did furnish funds for lumber operations in 1931 and 1932.

Q. I know you did furnish some but you discouraged production?—A. There were a good many lumbermen who by that time were pretty nearly broke.

Q. Absolutely hopelessly broke. You were probably right in refusing to advance money to a company to go in and produce any large stocks of lumber during the winter of 1931 and 1932, and I think you did that, did you not?—A. As I say, we did finance some. Others who were not in the position to borrow did not get the same amount of money perhaps as they had in the past.

Q. Well, I am saying this in commendation of the stand taken by the bankers, that they did not advance further moneys in those winters because there was an already over-production, an over-hang on the market, but then when we come to the remaining stages, say in 1932 and 1933, will you agree with me that there was a very narrow market, hardly any consumption?—A. The export market had gone, of course, and there was a very narrow market, and also a lot of stocks, although by that time they were cutting down the stocks. However, you live in Quebec and you probably know more about it than I do.

Q. It is not that, but what I am getting at is this: You very properly refused to advance more money for further production of a commodity which was already a drug on the market, and I would like to ask you whether you continued to force the sale of that commodity which was by this time a drug on the market?—A. I think in some cases—without using the word "force"—

Q. You advised your clients?—A. —we suggested that it was desirable for them to make what sales they could as it seemed probable that they would be able to produce lumber cheaper and better results would be achieved in that way than if they kept it and paid interest and all other charges.

Q. I was asking you as to the effect of that policy, which I do not say the Bank of Montreal followed any more than any other bank. In fact, I agree with you the Bank of Montreal was very generous to the lumber trade, but was not the result of that policy of suggesting to them that they had better unload all their stocks that the market kept being further and further depressed during the years 1931 and 1932?—A. There is no doubt there were distress sales of lumber.

Q. And there were liquidators and others who got hold of lumber and sold out?—A. But that was not the fault of the banks.

Q. Well, it may be an incident in the lumber business, but as I have known it since childhood, they were always in the hands of the banks, and I can imagine no other factor selling them out except the banks, and if the banks did suggest that these stocks should be lowered then it had the effect of lowering the price of the commodity generally?—A. As I said, whenever a lot of people sell, prices go down, that is a fact. Each separate case has to be dealt with on its merits, and, in some cases, it was better for them to take the price at the time than take a lower price later on. In the course of events it is true to say that perhaps, in some cases, it forced down the price, or rather the price of some lumber went down.

Q. That is to say, if a fairly large holder was obliged to sell his stocks of lumber, did it not have the effect of lowering the entire market?—A. Well, is not that always the way, if one man will sell a thing for $5 then other people have either got to sell for $5 or not sell at all.

Q. Do you not think it would have been in the interests of the banks to have got together and endeavoured—not only in the interests of the banks but the public—in some way to agree that the market could have been supported instead

of further depressed by these banking operations?—A. No. The banks were, as you said, very generous with their customers in the lumber business and did the best they could to carry them through, but to say that this stock, or that stock, or any other stocks should not be sold, well it reminds me somewhat of the wheat pool.

Q. Why did you not support the lumber market as you supported the wheat market?—A. I did not support the wheat market and the banks did not support the wheat market.

Q. The next question I am going to turn to is the question of finance. Was there any uniform policy between the banks who had interests in the Eastern Provinces—I am not speaking of British Columbia now but of Quebec, New Brunswick and Nova Scotia—in dealing with this lumber situation which admittedly must have been an important one for the banks because they must have had large sums of money involved in the lumber industry?—A. There was no concerted action as I said in my original statement. The banks endeavour to help their customers in troublesome times.

Q. Yes, that is all right, but there was no meeting or gentleman's agreement, or plans for concerted action?—A. No, there was none whatever as far as I know.

Q. No co-ordinated policy as between the banks?—A. No.

Q. Do you not think it would have been a good thing if there had been?—A. No, I do not think so. I think each individual case ought to be dealt with on its merits.

Q. In spite of the fact that you know—as I do—that the sale by one bank, or at least the forced sale by one bank decreased the value of the holdings of another?—A. Yes.

Q. I am speaking only now in the interests of the banks.—A. Of course, if the market had improved the sales could have been made without depressing prices. The market has improved and these sales are going on, and they are getting increased prices. The banks are still suggesting that this lumber shall be sold but it is being sold at higher prices.

Q. It is to your knowledge then that eventually at least a certain number of the banks supported some of their clients and they formed an organization whereby the price was kept up; that is to your knowledge is it not?—A. No, it is not.

The Chairman: Was not that in the later stages, Mr. Power, of the liquidation?

Mr. Power: Yes, yes. I say "eventually"; I mentioned the word "eventually".

The Witness: Well, that is not within my knowledge; it may have happended.

By Mr. Power:

Q. I am giving you credit by saying that your bank was one of the strongest supporters of the arrangement.—A. I am sorry to say that I cannot recall.

The Chairman: I do not think the banks had anything to do with that; that was between the manufacturers themselves.

Mr. Power: My understanding of it was this, that up to a certain point the banks liquidated those stocks and they came to the conclusion that they would support some kind of an organization of producers, to see to it that these producers, a certain number of them, were not called upon to sacrifice any lumber.

The Chairman: My understanding is that the producers themselves got together.

Mr. Power: Yes, of course.

The Chairman: Without the intervention of the banks.

The Witness: Mr. Power, I assure you this is news to me; I have not heard of this before.

[Mr. Jackson Dodds]

By Mr. Power:

Q. As the Chairman says, the producers themselves got together and arranged that there would be no more depressing of prices, but before getting together each and every individual one had to go to his bank to get its permission and the bank stand behind it, is that not so?—A. I do not recall that, Mr. Power; but I might say if I had known that they were getting together like that I would have tried to help it out, I think.

Q. I do not know that there is anything further that I can ask you on the lumber situation; apparently you know it better than I do, but I did think that you would make a statement that the needless calling of loans brought about a sacrifice and a depression of prices?—A. No, I will not agree with any needless calling of loans, Mr. Power.

Q. Well, I will modify my statement, that the calling of loans brought about a sale of lumber at sacrifice prices.—A. No.

Q. I am not saying by your bank.—A. I do not know that there was actually calling of loans either. As I said before, people with a large inventory, and wages having gone down and so on, and costs having gone down, in many cases a man who sold in the earlier days of the depression perhaps on the suggestion of his banker, probably was better off, but that the loan was actually called in I do not think so.

Mr. BOWMAN: I do not know, Mr. Chairman, whether the few questions that I want to ask Mr. Dodds come under this particular phase of the inquiry. I want to cover the question of municipal credits since 1930, or 1931, and I do not know that that comes under this heading or not. However, I will ask a question or two and if it does not then I will defer it.

By Mr. Bowman:

Q. What rates of interest have municipalities in the east generally, and municipalities in the west been charged, say since 1929?—A. Well, I will have to turn that up because there have been changes in the rate?

Q. You could let us have that information later?—A. Yes, Mr. Bowman.

Q. You would not care to give any information then on that point, Mr. Dodds, at the present time, but would prefer to give it later?—A. It will not take long to find it.

Q. I want to find out what the comparison was between the rates of interest charged municipalities generally, rural municipalities, in eastern Canada, and those municipalities in western Canada?—A. You want to prove the old story that the rate is higher in the West than in the East, is that the point?

Q. If that is the way you want to put it, yes.—A. Is that what you want to find out?

Q. Yes, that is what I would like to find out.—A. Well, the rates in the West are, generally speaking, a little higher than in the East because the cost of doing business is greater; that is the answer to that.

Q. Well, to what extent are they higher?—A. Well, that I would have to turn up, but I would say a half or one per cent or something like that in a general kind of way.

Q. After the break did municipal rates go up somewhat for the first year or two and then come down again?—A. I do not think rates for the ordinary advances against taxes went up; they certainly came down later, because we gave all municipalities, cities and Provinces the benefit of the reduction in the rate allowed on deposits.

Q. Would you be good enough later on, Mr. Dodds, to let me have some information on that point?—A. I think it is all in the MacMillan report.

Q. I hardly think it is all there; there may be some?—A. In the MacMillan report, page 75, section 262:

> The rates on loans are based on the interest paid on deposit, plus the cost of operation, plus the cost of the risk involved. All three ele-

[Mr. Jackson Dodds]

ments must be taken into account, hence the difference between one region and another, and between one customer or class of customers and another.

Q. As a matter of fact, that is just a general statement?—A. Well, it has to be a general statement because of the conditions that are stated there.

Q. Which might apply to all municipalities?—A. I will find out for you, Mr. Bowman, what the rates are. What years do you want this for?

Q. 1930, 1931, 1932 and 1933.—A. All right.

Q. Then one of the main complaints I might say, Mr. Dodds, in the West during the last two or three years is that in connection with advances on binder twine?—A. Yes?

Q. I know, for instance, in the northern part of the Province of Manitoba where I live a farmer has been complaining very bitterly during the last two or three years due to the fact that he could not get advances from the banks for the purchase of binder twine?—A. No.

Q. Would there be any reason why the banks should adopt a general policy of that kind?—A. The banks have not adopted a general policy of that kind, and anybody who ever said so is making a misstatement. The banks have no such policy. The banks have every desire to facilitate the harvesting of the crop and so on, but there are a great many farmers, Mr. Bowman, as you know, who have got into such a position where their taxes are behind and everything else, and on top of that there is all this legislation which has been introduced in the Provincial Houses which has made it almost impossible for a bank to lend money. There is a list of things that come ahead of the bank making it practically prohibitive for the bank to provide the money for the binder twine for taking off the crop. There are six or ten previous liens that come in ahead of the bank.

Q. Yes, I will admit that, although possibly it is not as bad in Manitoba as in some of the other Provinces. In my own district during 1932, particularly, and 1931, perhaps to a limited extent, and in 1933, there were very bitter complaints from many farmers who, I personally know, were good for credit but who could not get an advance from the bank to purchase binder twine?—A. My experience, Mr. Bowman, has been that the man who like yourself, or somebody outside who says that the man is good for credit, is not always in a position to judge. I can assure you as far as we are concerned—and I think this applies to all the banks—it has always been our endeavour to help in these matters but we cannot do the impossible. We cannot lend money where there is a undue risk of not getting it back, and in an endeavour to be kind to the farmers the Provincial legislators in many cases have been exactly the reverse. The banks do not go and sell out every farmer immediately he cannot pay. There are very many of them who are being carried and have pyramided loans in very many cases, but if somebody comes along and says you shall not or you must not, or if you are going to put some commission over the heads of judges, above the judges of the Provinces and all the machinery built up during centuries for the administration of the law, if they are going to do that and say you shall not do this and must not do that and you cannot collect this loan then obviously that spoils the credit of the farmer.

Q. That is generally speaking, Mr. Dodds, the case?—A. That is generally speaking; I am afraid it is all over the place.

Q. I am referring to this one item.—A. It does not matter what the item is, whether it is for putting the crop in or taking it off, it does not make any difference, if we are to have somebody come along and say we cannot get the money that we have loaned for providing binder twine for taking off the crop, you cannot sue the farmer although he has got the crop, and that somebody else can come in and take it then obviously the banks cannot lend the money, Mr. Bowman.

[Mr. Jackson Dodds]

Q. That confirms what I say, that you do not lend the money?—A. I say on the contrary that we lend it in innumerable cases, but I say that there are cases in which it is impossible to lend the money.

Q. What you say is, that because of these restrictive acts, that is, restricting the right of the creditor to recover from the debtor, the bank has not adopted as wide a policy of credit as they might otherwise have?—A. It is our desire in all these districts to encourage and get the district going; that is what the bank is there for. Unless the districts are prosperous we cannot be prosperous. Obviously we would lend the money if we could. There is not a manager in the country that does not want to get the benefit of the rate that he will get from the customer as compared with the rate he will get from head office for the money that he lends to head office. If a manager has surplus deposits at a branch he gets a certain rate of interest from head office for the money which is much lower than he would get if he loaned the money, and he would much rather lend it as his whole future depends on his success in running the branch. It comes down to this: A manager will say, can I lend that man the money and get it back? If the answer is that there is a grave doubt as to his getting it back he will not lend the money; neither would you or anybody else.

Q. If Section 88 of the Bank Act were amended to cover binder twine, would that help?—A. I think if Section 88 were amended so that there would be no liens ahead of binder twine, say, obviously it would make it easier to that extent, to assist somebody. Just how far that would go I would not like to say, but that would be an important thing.

Q. The reason I ask that question is that one of the members—I think Mr. Perley—has made a suggestion to the effect that the section be amended in this respect?—A. Well, it all depends. I am not a lawyer; there are lots of you here who could say whether that would come ahead of all these other liens or not. If it would not, of course, it would not be much good; but if it would why it would help.

Q. But generally what you say is, that the banks have not loaned the individual in accordance with whether or not he would be a safe risk; if he were a safe risk he would get the money?—A. Yes, Mr. Bowman. For your information, I might say that we have written to our managers and encouraged them, and told them wherever it could be done on a proper basis to do it. We want to do it; we want to help the farmer. We could not stay in any district unless the district prospers. It is so obvious that people will realize we want to help them.

Q. I bring the question up because in my own part of the province of Manitoba, as you are aware, the farmer cannot get the binder twine without paying cash for it, and I know in many cases the banks have refused to accommodate him.—A. I can quite understand some managers refusing to make some advances. No doubt our own people have done it but only for the reasons I have stated.

Q. And you are of the opinion that if the Act were amended it would make it easier for the bank to make an advance?—A. Assuming it would come ahead of these liens, and assuming that the man who is going to borrow the money had the first essential—character.

By Hon. Mr. Mackenzie (Vancouver Centre):

Q. Is there a general policy on the part of the banks as to the amount of discretion allowed local managers, say in western Canada?—A. There is no general policy, in fact it changes with the manager. When a manager goes to a new branch we write to that branch and we say "so and so has been appointed manager and that his discretion is so much." In passing, I might say that if you have a manager with some experience, an older and more experienced man, you would increase the amount without hurting the feelings of the other man.

[Mr. Jackson Dodds]

Q. So in each locality your local man has a specific authority for a specific amount?—A. Yes.

Q. And it is not the same amount in each case?—A. That is right.

Q. And does the same thing apply to the cancelling of loans, or would he have to consult head office with regard to the general policy?—A. I have forgotten the figures, but I think it is over 90 per cent of all the loans in western Canada are dealt with in western Canada.

Q. But there is no general policy laid down by head office in regard to instructing a local manager in regard to either granting a loan or cancelling?—A. You see, you could not do it, it is too big a thing to do all that from headquarters. Those things are dealt with by the people who are out in the West. The general policy is to assist trade and commerce, and industry and so on, and that is left to them.

Q. After 1929 when the financial collapse came, was there any general policy on the part of the bank, or instructions to local bank managers in regard to what should be done for calling in loans or the curtailment of credit?—A. No.

Q. Do you mean to tell me, that after the crash came in 1929 local managers were given what you might call individual discretion?—A. They had exactly the same discretion.

Q. Yes, but when securities went down in value what was the position, were there any general instructions issued to the local managers as to what policy should be pursued?—A. No. Our policy is and always has been that we want to help the farmer.

Q. I know, but my point is this, that after the inflation period was over and after the financial collapse came in 1929, was there a general letter of instructions, or a general policy issued to the local managers of the banks by the various head offices in regard to what should be done as far as curtailment of credit was concerned, or the calling in of loans, or the reassessment of the value of securities?—A. No, there were no general instructions of that kind. The kind of instructions we gave with regard to the farming community, were that we wanted to help keep the men on the land.

Q. We will admit that, but let us forget the farmer and the farming community, let us go to British Columbia. Were there any general instructions such as I have referred to sent to the local managers?—A. No.

Q. The situation was left entirely to the discretion of the local managers?—A. According to their limits, I mean the discretion he is allowed in making loans for ordinary business purposes, if he thinks the loan is safe.

Q. That is for the making of loans?—A. That is the same thing, it is all the one thing.

Q. And when the securities went down in value?—A. If a man is borrowing against securities and the arrangement was that there was to be a 25 per cent margin, as I frankly stated if the margin was disappearing, not being kept up, if you cannot keep the margin you have to sell some of your stocks.

Q. Before the collapse came did head office advise the purchase of certain investments by their clients?—A. No.

Q. Did any subsidiaries, or affiliate institutions of the banks, ever advise clients to purchase certain investments?—A. We have no such company.

Q. Well then, if I produce evidence in regard to a certain case where that advice was given, a case in the Okanagan in British Columbia would you be surprised?—A. Well, all I would say is that whoever gave the advice gave it contrary to instructions. We do not give advice on buying securities.

Q. So you have no intention whatsoever of competing with these investment houses?—A. No.

Q. My question is, was there ever at any time to your knowledge a policy on behalf of your bank in regard to advising clients of any branches as to the

[Mr. Jackson Dodds]

purchase of a certain kind of investment?—A. Our people are told not to recommend, and if anybody did it, then he did it on his own responsibility and he had no business to do it.

Q. I am very glad to hear that, and if it was done it was done against the general policy of the bank?—A. Absolutely.

Q. Then if these investments were purchased, as I suggest to you there is evidence of in a case which I will gladly send to you, by a certain employee of the bank, when conditions became depressed and the loan was not so secure, the method of dealing with that loan then would be left to the discretion of your local manager?—A. Probably in a case like that we would not know about it.

Q. So when we have the general impression prevailing that there was a tremendous curtailment of credit due to the deliberate financial policy of the bank, that was entirely dealt with by the local manager and not as a result of the general policy of the bank or banks?—A. It was not the general policy of the banks. I would like to quote from page 77 of the MacMillan report, section 273:—

> The banks have been most emphatic in denying these charges, and have submitted that their boards were as far as possible representative of the entire country, or at least of such parts of the country as provided a sufficient volume of business. The banks submit that for administrative purposes the branches are grouped into districts, generally by provinces, under the charge of a supervisor with authority to deal with all credits up to, say, $25,000. At certain points where banks have committees of directors, the limit is still larger. We received evidence to the effect that, in the case of one bank having its head office in Montreal, out of thousands of loans made in the three prairie provinces 99·64 per cent were granted before reference to head office; whilst another bank reported that 88·32 per cent of its loans in Alberta had been dealt with by the branch managers directly, that 16·47 per cent had been referred to the Calgary superintendent, leaving 1·21 per cent for approval by the assistant general manager in Winnipeg, and out of this 1·21 per cent only ·605 per cent had been submitted to head office.

Q. That is for the issue of loans, Mr. Dodds?—A. Well, they deal with it just the same, they look after them.

Q. Does the same policy apply to the curtailment of credit?—A. I do not like the words "curtailment of credit."

Q. Calling in of loans then?—A. No, I do not like "calling in of loans," because that is not what happened.

Q. Peaceful persuasion?—A. No, I won't accept "peaceful persuasion" nor any of these sugestions. I have explained very carefully, and tried to explain just what our policy is and just how we handle these things. As I said before, if a new man suddenly finds himself with a loan that he has made within his own discretionary limits and things are going wrong, I will admit, if that will help anybody, that that young man might sometimes do things that we would not approve of. I will admit just in the same way as in the case I spoke of just now, that it is quite possible that a new man or a young man did advise somebody, but it was done on his own responsibility and the bank would disapprove of it. I am certain it would.

Q. The reason I raise the question is this that in the West particularly it is the general impression prevailing that there is no discretion whatsoever left to the local manager?—A. It is just absolutely bunkum.

Q. It is very good to have it cleared up because that is the general impression.—A. It is too absurd for anything.

[Mr. Jackson Dodds]

Q. Has the policy been the same for the last several years?—A. That was the policy long before I got out to the West. All the time I was out West that very same thing applied to me. Of course, if it was a very big loan I had to refer it to my superiors.

Q. I did not happen to be in when Mr. Coote was asking you in regard to the $35,000,000 loan. Would you be good enough to explain the details of that transaction? Mr. Coote asked the question:—

> 2. My first question is directed to the $35,000,000 loan that the government got from the banks, perhaps a year ago. I understand that the banks at the same time agreed to borrow from the government $35,000,000 under the Finance Act?—A. Yes.

Would you be good enough to explain in your own way how that transaction took place between the government and the banks?—A. I do not think I can add much to what I said before, but my recollection is that we happened to be in Ottawa on some matter and the Prime Minister said that he was proposing that he should issue treasury bills, I think it must be two years, and he wished the banks to borrow under the Finance Act an equivalent amount. I was asked at the time, if I remember rightly, why it was done, and I said that I could not say just why it was done but that I assumed the Prime Minister wanted to try it on the dog and see what would happen.

By Mr. Coote:

Q. I wish Mr. Dodds would tell us who he refers to in this case as the dog?—A. I am one of the dogs in this case, I am a taxpayer.

Mr. Coote: There was one question in connection with binder twine—loans for binder twine now given a preferred position in Alberta.

The Chairman: That is a matter of law, is it not?

The Witness: I could not answer. I could find out. May I just say, Mr. Mackenzie—I would like to make this clear—we were advising the purchase of Dominion and possibly Provincial bonds if the customer made up his mind to invest, but we were not recommending stocks. I should make that clear, because we did recommend Dominion of Canada bonds.

By Hon. Mr. Mackenzie:

Q. I was talking about these bond issues?—A. Dominion of Canada bonds only.

Q. Only Dominion of Canada bonds?—A. Yes.

Q. Did you say Provincial as well as Dominion of Canada?—A. In some cases.

Q. But does it say other valuable securities there?—A. No, it does not. I quote Falconbridge on Banking, 4th Edition, page 58:—

> In ordinary circumstances it is not within the scope of a branch manager's authority to give advice as to investments and the bank is not liable for negligence in connection with the giving of such advice (Banbury v. Bank of Montreal, 1918, A.C. 626, 44 D.L.R. 234).

By Mr. Spencer:

Q. I would like to ask a question in regard to binder twine. In regard to some questions asked by Mr. Bowman, I think the witness said the bankers wanted to facilitate taking in the crop, and, later, if the risk was safe the farmers would get the money. Is it not a fact that for, at least, one if not two years the banks of Canada refused to advance money for binder twine in the province of Manitoba without the backing of the Provincial government?

—A. I have said pretty clearly that where a man was entitled to credit he would get it. There are cases where we have had the province of Alberta guarantee at certain points, but there are hundreds of cases where we have not had any guarantee; and it is not a fact that the banks have refused to loan money for binder twine.

Q. May I ask what was the order, because I knew a very large number of people, very old settlers and were once perfectly good risks who were all lumped in the same category in regard to not getting money for binder twine unless they came under the government guarantee?—A. I assure you that the policy is as I have stated. If you have any specific cases to the contrary I will be glad to look into them.

By Mr. Perley (Qu'Appelle):

Q. Just to follow up this binder twine question. Two reeves of different municipalities, while I was home, called on me, and this was one of the grievances they had to make: they were forced to finance the farmers last year and in 1932 as well, with respect to binder twine. I have a statement from the reeve of municipality 156, in which he stated that they had to advance $6,000 on binder twine, in 1932, and practically the same, in 1933. Now, that would cover practically 75 or 80 families at least. The average bill for binder twine, in that municipality, last year, would be about $60, or $70. At least, that would harvest about 10,000 bushels of crop. Now, I might say that both of these reeves complained very bitterly about this, and that this spring again they are forced to advance money for repairs in order to put in the crop. You spoke further with respect to proposed legislation, or legislation that was being put through by the different provincial governments. Has not that legislation been introduced since 1930?—A. Of course, there has been legislation piling up for—look at the months that these parliaments sit in the west. What do you think they do all the time? Half of the time is taken up—

Q. Were not many of those liens prior to 1930? Seed grain liens and such like have always been there?—A. Some of them. I did not refer to those. I referred to the new ones. Even the press in Saskatchewan is holding up its arms in horror at what is going on.

Q. You read this morning a press dispatch?—A. It is getting worse all the time. That is what I am saying, and I am trying to show that something else is being put in constantly.

Q. I had one reeve in particular give me a statement of a farmer who had two sections of land cleared and his equipment clear and he could not get his twine last year?—A. Well, I wish he would go to the Bank of Montreal. Where is this municipality No. 156?

Q. Indian Head municipality; and the other one is 155?—A. It is too bad we got out of there.

By Mr. Duff:

Q. I get rather jealous about all this talk about binder twine. Could I ask Mr. Dodds if he was ever asked by the farmers in Nova Scotia to advance money on lobster traps?—A. No.

By Mr. Lawson:

Q. Would you be good enough to revert to the question of loans to lumber companies, dealt with by Mr. Power. Assuming that the bank require a payment, or partial payment, of its loan and as the result of that lumber companies were compelled to liquidate some of their lumber on a falling market, was not the bank's only alternative to that position to create a frozen asset out of a current asset?—A. I think you would make a pretty good banker.

[Mr. Jackson Dodds]

Q. In that case I would like to carry you one step further. The bank, I presume, cannot meet the local demands of its depositors out of frozen assets?—A. I do not know anything more difficult to do.

Q. And obviously, therefore, the bank's choice in the final analysis is as to whether or not the lumber company must lose or the depositors must lose?—A. Yes; but, thank goodness, we have not got down quite as far as that, but in the final analysis that is right.

Q. Now, I would like, Mr. Dodds, to get another thing clear in my mind. If I appreciate correctly the tenor of the questions asked this morning by Mr. Coote and Mr. Spencer it was to show that every time a bank loaned money on security a new deposit was created, and, therefore, credit was extended, and it became a debt. It was difficult for my simple mind to comprehend. Therefore, I would like to take a simple, concrete instance. If "A" comes to your bank and borrows $1,000 and deposits with your bank securities having a market value of $1,000, am I correct in my conclusion that the deposit of the loan extended available credit $1,000, but the deposit of the security with your bank retracted $1,000 of available credit which was in another form?—A. I think that is a correct statement.

By Mr. Vallance:

Q. Now, Mr. Dodds, I was in the west during the last ten days, and there were a few questions the farmers asked me which I was unable to answer, and I asked some of the branch managers and they were unable to answer. I said that if I got back to Ottawa I would ask Mr. Dodds. Now, Mr. Lawson suggested a question that one farmer asked me. Therefore, I ask this question. I think he made the statement that the ability of the individual to borrow was determined very much by the type of branch manager he had there?—A. No. By the type of the branch bank manager?

Q. Yes?—A. No. I do not think that is a fair statement. These men are chosen because we believe they can lend money, or we would not send them there.

Q. Take the larger places—towns in the west of 1,800—you would send a little better branch manager there than you would send to a place of four or five hundred?—A. No. He has more people to deal with. He has a bigger business, probably. Obviously, he must be a man of more experience. You might put a man in charge of a small corner grocery store, but not in charge of Eatons groceteria. It is the same principle.

Q. Take the case of a farmer operating from a small shipping point with, say, twenty-five residents in it and probably three or four elevators, if there was a bank branch there, because of the fact that they had a certain type of branch manager there, he would have to go to head office?—A. No, he would not. It would be referred to the superintendent we have in that district who knows the conditions. And we have records. If we have been in a place dating back years and years we know more about some people than other people imagine, and if a man has always played the game it will be on the records, and, if he has not, it will be there, and they might as well know it.

Q. The question I was asking is this: it was in view of the answer you gave to a question when you were asked what were the moneys the bank had to loan out of its credits, and I think you said, at one time at least, that the deposits were the greatest volume of money that the bank had?—A. The deposits are the greatest shown in the return.

Q. That is what I am going to base this question that the farmer asked me upon. Suppose "A" comes into the bank and deposits $2,000; that is a deposit?—A. Yes.

Q. "B" comes into the bank and borrows $2,000 for which he gives his note and deposits the $2,000?—A. Yes.

[Mr. Jackson Dodds]

Q. Do you then show a deposit of $4,000?—A. You probably do for about five minutes, until he has paid all the notes he has due.

Q. I asked one of the managers—I do not say one of yours—I asked him just when he balanced the notes off against the deposits. He said he didn't know. When he told me that I said I would ask you. You say five minutes?—A. It might be less.

Q. It would be quite proper for me to say that the answer of Mr. Dodds was that it would be balanced up five minutes afterwards?—A. A man generally does not pay the bank 7 per cent interest—I say 7 per cent because that is the rate now—a man does not pay a bank 7 per cent interest just for the satisfaction of leaving the money there. We haven't many such customers anyway.

Q. He does not what?—A. A man as a rule does not pay 7 per cent interest just for the pleasure of having the money at his credit in the bank.

Mr. Duff: He does for the pleasure of buying an automobile.

The Witness: They use it. It goes in no time.

By Mr. Vallance:

Q. It goes as a deposit?—A. The loan does not show as a deposit. When a man borrows $2,000, we will say it is put to his credit. He promptly sits down in the bank and writes cheques for all the different things he owes; and in my experience as a country branch manager what happened was that a man would come into the bank and he would take a certain amount of cash, and with regard to the balance, he would say, "Now, Mister, you help me to make out who should get a share of this money." I would say, "You owe the bank such and such notes, and there are other notes for collection" and the money would all disappear except the little cash in his pocket.

Q. I will see that the farmer gets your explanation. There is another question you brought up this afternoon as to the possibility of the bank manager or the bank officials going out and suggesting to certain individuals that they borrow money for specific purposes—buying stock, if you like?—A. Buying what?

Q. Stock or stocks. Was there ever a time in the history of Canadian banks within the last 15 or 20 years when the bank went out to the farmer and offered him credit to buy cattle?—A. Yes. I would say there was; and the bank that did it is no longer in existence.

Q. Oh, no, that is not true entirely?—A. Well, very largely true, is it not? It might not be 100 per cent correct, but it is very largely true.

Q. I do not know what years you were in western Canada, but I would like you to go back to 1917 or 1918, during the war period, when cattle rose to unprecedented heights. Some of us decided to get out of cattle. We sold cattle and many individuals on the advice of the bank thought it was a good investment. Then they found by 1920 or 1921 that the cattle they bought were not worth one-third of what they paid for them. Now, from your knowledge do you know of the banks going and talking to a fellow who sold cattle and suggesting that he buy them back?—A. No, I do not.

Q. Did you ever hear of such a practice?—A. I have never heard of such a practice. I once delivered an address to young bankers in western Canada and I told them particularly and carefully that they should mind their own business about giving advice to farmers on buying cattle and so on, and that they should refer all these matters to agricultural colleges who had gentlemen whose business it was to look after that. It is not the bank's business to give that advice. But I admit it did happen. I know of one particular case, because I had to collect the loans a few years afterwards.

[Mr. Jackson Dodds]

Q. This is the last question I have to ask. I have been laying the basis for it. In your opinion as a banker is not the reason to-day that the average farmer—I say average advisedly—cannot get credit from the bank because of this action of the bank from 1917 to 1921?—A. No. I do not think so at all. I think the farmer is a pretty shrewd fellow taking him by and large, and he got into buying cattle and so on—and I have no desire to criticize the western farmer—because he was no different from all the rest of us. He spent money and got into debt like many other people.

Q. And you would not say it was because of the easy credit from 1917 to 1921 that the farmer now finds himself being pressed by the banks?—A. I used to hear complaints in 1917 and in 1921 although I wasn't here—the same old story—the bank would not give the money for something. I think probably it is true. If the banks had not loaned as much money some people would be better off. I am free to admit that.

Q. The farmer now finds himself in the same position as the lumberman, as was suggested by Mr. Power. Are you going to admit now that the banks are responsible for both?—A. Certainly not.

By Mr. Irvine:

Q. I have one question arising out of the hypothetical case put by my friend Mr. Lawson. May I put a question to you about borrowing. Other gentlemen have used "A" and "B" I want to use "C". Here are "A", "B" and "C". "A" has $2,000 in the bank, "B" borrows $2,000. He pays a $2,000 account to "C", and "C" puts it back in the bank next morning. Then you have $4,000 on deposit?—A. Suppose he didn't do that. Say that he came and paid someone else off.

Q. It has got to be accounted for by the bank if he paid someone else. You have it still in your books as a deposit?—A. We might get our own money back on a loan.

By Hon. Mr. Mackenzie:

Q. A moment ago I was asking you about the general policy of banks as far as investment are concerned, and I understood you to say that the advice given affected only Provincial and Dominion bonds?—A. Yes.

Q. May I refer you to an advertisement which appeared in the Financial Times of Montreal of September 1st 1933, offering for public subscription $13,500,000 of the new issue of the City of Montreal bonds in which the names of every one of the nine Canadian banks appeared?—A. We offered them for sale. What does it say?

Q. This evidence was given before the Macmillan Commission. Exhibit 1 referred to the Financial Times in Montreal under date of September 1, 1933, offering for public subscription $13,500,000 of the new issue of City of Montreal bonds in which the names of every one of the nine Canadian banks appeared. What is the explanation of that?—A. The explanation is that we were selling the bonds. You asked me if we recommended them. Does it say we recommended them?

Q. Not in that particular case. I want to explain this to the committee. Exhibit No. 5, a prospectus dated June 25, 1928, with the imprint of the Canadian Bank of Commerce $500,000 5 per cent bonds af Panama Pacific Grain Terminals guaranteed by the city of Victoria, B.C.?—A. Did they say we recommended it?

Q. It was a prospectus?—A. Did they say we recommended it?

Q. I assume that a prospectus recommends something?—A. No.

Q. A prospectus recommends something to buy?—A. Captain Mackenzie, I do not say that we never sell bonds that come into our possession, but recommending them is another thing. You are asking me if we recommended it.

Q. Would you not agree with me that if you have a million dollars of a particular kind of bond in your possession and you are issuing the prospectus

for the sale of those bonds that you are in the bond business as against other investment houses?—A. We are in the bond business, certainly.

Q. In the investment business?—A. What do you mean by investment business?

Q. You are in competition with the bond and investment houses?—A. All banks, as far as I know, as long as there have been bonds have bought and sold bonds. It is part of the business of bankers all over the world.

Q. You must be when you issue a prospectus?—A. That is not what you asked me.

Q. Yes. The prospectus is issued by the bank?—A. I do not say we do not sell the bonds or we were not on the prospectus. You asked me, and I tried to answer the question you asked me—do we recommend it?

Q. A prospectus. Exhibit 7, June 22, 1929, offering a new issue of $10,000,-000, Simpsons Limited, 6 per cent bonds at 100. This also, bears the imprint of the Canadian Bank of Commerce?—A. I do not deny it. There it is. The evidence is there. You asked me if we recommended them and I tell you we do not.

The CHAIRMAN: It would be interesting to the committee Mr. Mackenzie, if you read that prospectus and we could see what there is in it.

Hon. Mr. MACKENZIE: It is all filed already. I will be very glad to file this before the committee has adjourned.

Mr. MACMILLAN: Mr. Chairman, were there other people selling these bonds?

By Hon. Mr. Mackenzie:

Q. I will now refer to the National City Company Limited. The first page reads as follows:

> To assist investors in placing their surplus funds securely and profitably at work we are setting forth briefly in this booklet the fundamentals of a sound investment policy. The National City Company Limited, Charles E. Mitchell, president, President The National City Bank of New York, Norman L. C. Mather, managing director.

Then follows a list, which is prominently displayed, of the Advisory Board containing the names of Sir Charles B. Gordon, G. B. E., Sir John Aird, W. A. Black, Esq., A. J. Brown, Esq., K.C., Sir Lomer Gouin, K.C.M.G., Wilmot L. Matthews, Esq., F. E. Meredith, Esq., K.C., Lt.-Col. Herbert Molson, C.M.G., M.C., Edson L. Pease, Esq., W. N. Tilley, Esq., K.C., Hon. J. M. Wilson. With one exception, all the members of this advisory committee were directors or officers of Canadian banks, and my interpretation of that is that it was a recommendation to the public to invest in that certain class of security?—A. It does not say the banks recommend, because the banks did not recommend, and if you will turn to the minutes of proceedings of this committee—

Mr. ERNST: I do not know that this matter comes within the subject under discussion. It might come within paragraph 1 which deals with, interlocking directorates.

The WITNESS: If you look at the list of Boards of which these gentlemen are said to be directors, I think you will find that they are no longer directors. They have resigned. They are no longer directors of the National City company.

By Hon. Mr. Mackenzie:

Q. I have one more. Exhibits 19 and 20 of the same evidence given before the Macmillan committee was a printed list, dated April, 1933, headed "Investment Securities Current Quotations by Bank of Montreal," offering a mixed list of 36 different bonds and a page from the "British Columbia Financial

[Mr. Jackson Dodds]

Times" dated May 20, 1933, in which this display advertisement appears—"Investments. The services of our bond department are available at all times—the Dominion Bank, Vancouver branch." It strikes me that that last phrase means an invitation to take advice from that particular bank?—A. I do not see why you should read anything into it that is not there.

Q. Is that correct? Do you agree with that?—A. I have told you what we do.

Q. What is your interpretation of that—"The services of our bond department are available at all times"?—A. They are glad to buy and sell, and the Dominion Bank would be glad to have an order from you.

Q. There is no suggestion—A. Why should I answer that. That is not the Bank of Montreal.

Mr. ERNST: Why should this witness be called upon to interpret a document which the Dominion Bank issues? The document speaks for itself. I do not think, unless it was issued by the Bankers' Association, the question should be asked of this witness.

Hon. Mr. MACKENZIE: If my friend objects, I have no objection to his objecting.

The CHAIRMAN: Of course, you will agree that you should not ask the witness about this.

Hon. Mr. MACKENZIE: I am quite satisfied if he does not like to answer. I am suggesting to the witness—

The WITNESS: You are suggesting, but why you should suggest this I do not know, because I have given you the answer.

Hon. Mr. MACKENZIE: You disagree with my interpretation?

The WITNESS: I certainly disagree.

Mr. ERNST: Again I object; it is not a proper question.

By Hon. Mr. Mackenzie:

Q. You said that the only bonds indulged in by Canadian banks— —A. No, I never said that.

Q. Recommended— —A. I never said recommended. I say the bonds we recommend are Dominion government bonds and, in some cases, Provincial bonds. We do not recommend others.

Q. And in no other case.

By Mr. Bowman:

Q. I think this matter is of tremendous importance, for this reason that if the name of nine chartered banks of Canada appear on a prospectus surely that is a recommendation of some kind to an investor?—A. If it were not respectable we would not be on it. We do not recommend that sort of thing. We recommend if somebody comes to us to purchase Dominion of Canada bonds or something of that nature. If they want anything else, then we get the opinion of several outside parties, and it is their opinion, not ours.

Q. Am I to take from your evidence that your bank has not, by offering these particular investments to the public, recommended them?—A. We have recommended them only so far as we have them for sale. The mere fact that we have them for sale makes certain people believe that they have our backing. I agree with you this far that there is an implied recommendation if our name is on it. The people will know that we would not put our name onto anything that we did not think was all right; but we would not recommend it to anybody in the ordinary sense of the word; and that is what Mr. Mackenzie was asking about,—the ordinary buying and selling of bonds.

[Mr. Jackson Dodds]

Q. You say you would not recommend them in the ordinary sense of the word?—A. No. If you came into our bank and you wanted us to recommend you bonds we would recommend you to buy Dominion of Canada bonds, or Canadian National Railway bonds guaranteed by the Dominion of Canada, but we would not recommend you to buy City of Montreal bonds. If you wanted to buy some City bonds, say City of Montreal or City of Toronto you might ask us which would be the better of these and we would say "well, this is considered to be good, the best of its class", but we would not recommend it.

Q. Do you mean to say this, Mr. Dodds, that the bank will have for sale and advertise in the ordinary way certain bonds which you are not prepared to recommend?—A. Certainly. There is an implied recommendation by the mere fact that our name is on the thing. I know it and I have admitted it, but you will find it on very few prospectuses.

Q. I think you will agree with me that the particular bonds that are mentioned in the prospectus or in the advertising of some well known firm will sell better because the bank's name is on them?—A. We have to keep these things in their proper place. We start off with one thing and get into another. When you get talking about prospectuses, I admit there is an implied recommendation if our name is on it. We think it is all right but we do not recommend them. If you come in to buy a bond in the ordinary way we would not recommend you to buy City of anything; we would recommend you to buy Dominion of Canada bonds. And then you would say—as hundreds of other people say—that does not bring me in a big enough return, what about City of this or City of that, or something else. Well, we might say that in its class this is considered good but we would not recommend it; we would try to help you but we would not recommend.

Q. I mean this, it is very difficult for me to draw a distinction?—A. I believe the average person will realize there is a difference between recommending something and saying here is something which is regarded as being the best of its class, or we might say that the bond dealers tell us that this is the best in its class and sells best, and so on, but that is another thing from recommending.

Q. I am sorry I do not agree there with you.—A. I am sorry you do not, but there is a very big difference.

Q. Here is what you tell the committee, in regard to a prospectus in one of these concerns.—A. Let us stick to one thing at a time. Are we going to deal with public issues or are we going to deal with when you come in and buy a bond? There is a big difference, as I have explained.

Q. I am dealing with anything that is advertised and offered to the public?—A. Then that is a prospectus and I have said several times that there is really an implied recommendation. We believe it is all right or we would not issue it but we do not recommend it.

Q. In other words, you say to the public, "we have something to sell which we think is all right but we do not put on our prospectus in written language that we recommend it".—A. That is right, yes.

Q. Frankly, I do not see any difference.—A. I am sorry, but there is a big difference.

By Mr. Mercier (St. Henri):

Q. Supposing the City of Montreal issued bonds to the value of $10,000,000 and they deposit them with your bank or with some other bank, do the banks take these bonds and give the City of Montreal the money for them and then you issue the bonds to the public?—A. That is not the way it works, Mr. Mercier. The City of Montreal will borrow against the taxes that are coming in, in anticipation of revenue, or they will borrow for some work or works which have been approved and so on and for which they have to make an issue, spreading the cost of if over a period of ten, fifteen or twenty years, and we

[Mr. Jackson Dodds]

have to carry them along until such time as the bond market is ripe, and then from the advices we get we advise them that we believe this is a good time to issue the bonds, a price is agreed upon by them, and after consultation with all the people they think can help them the issue is made to the public.

By Mr. Duff:

Q. Does that not mean that if your name is on that prospectus that these bonds are deposited with your bank so that members of the public can come in and buy them in the regular way; there is no guarantee?—A. No, there is no guarantee, but we would not put our name on anything that we did not think was all right.

Q. The real fact is, that the City of Montreal in order to raise that money either sell them or deliver them for the purpose of sale to a number of bond houses and banks, and the banks have them there for the convenience of their customers to buy?—A. That is about right.

By Mr. Sanderson:

Q. Do the banks ever purchase any bonds—I am not speaking of provincial or dominion bonds—but do they ever buy a block of bonds and then resell them to the public?—A. Yes, we have done that at times.

Q. Well then, in that case you are selling something that you own to the public?—A. Yes.

Q. But you do not recommend them?—A. No, we offer them for sale.

Mr. Spencer: Mr. Chairman, I would like to ask Mr. Dodds a question with respect to a statement he made in an address on March 31st, 1933, in Winnipeg, in which he said:

> The central bank can also make larger or smaller quantities of money available for commercial or other purposes by buying or selling securities in what are commonly called "open market operations".

The Chairman: Are you going to open up a new avenue by that question?

The Witness: What page is that, Mr. Spencer?

Mr. Spencer: Page 24. The question I would like to ask is this: Do not commercial banks now use the open market operations and if so would you explain how?

The Chairman: Mr. Spencer, we are going to deal with that whole question under the Central Bank. Please do not let us open it up here. You do not know to what length that it may run. That is an important question and it is covered in the preamble of the Central Bank Bill. Does anybody want to ask Mr. Dodds any further questions under Item No. 2 of the Power motion? If not, the witness will be discharged. He certainly has been here long enough.

Witness retired.

The Chairman: Mr. Patterson, of the Bank of Nova Scotia, has been here for two days. We will hear him now. He has a short brief which he prefers to read, first, without interruption.

H. F. Patterson, called.

The Witness: Mr. Chairman, Mr. Rhodes, gentlemen of the committee:

Preparatory to considering questions as to the general policies adopted by the Canadian banks to combat the effects of the depression, it should be stated that no concerted policy was followed, that is, there was no definite agreed upon policy by the banks as a whole—each bank handled its own problems. Primarily the efforts of bank managements were directed

1. towards maintaining the position of the bank.
2. towards assisting established customers to weather the storm.

The position of the executive officers of a bank at a time when prosperity has resulted in over-speculation is one of extreme delicacy. If they were, by means of speeches and through the press, to become too strident in their warnings to the public of anticipated dangers, it is entirely possible that their words might themselves be productive of unfortunate consequences—for statements made by the heads of an institution as large as a Canadian chartered bank may have unexpected repercussions. Nevertheless so patent were the dangers of the situation to our chief executive officers that in the course of their addresses at the annual general meetings of shareholders in January, 1928, and 1929, both the President and General Manager called attention to the unhealthy situation that was developing due to over-speculation. These addresses appeared in the published proceedings of the annual meetings and were inserted in the principal newspapers of the Dominion. In addition, from time to time confidential circulars along the same lines were addressed by the General Manager to all branches in Canada. As an example of these precautionary measures by our own organization before the crisis, I would like to record that as early as September 15, 1927, a circular was despatched to our branches drawing attention to the extensive speculation in stocks that had developed throughout the country. Others were forwarded from time to time pointing out that stock prices had advanced to such an extent that many issues were selling beyond their investment value either on the basis of earnings or assets, and that such unbridled speculation would inevitably lead to trouble and a resultant repercussion on business generally. By this procedure we endeavoured to safeguard our managers and our customers and prepare them for the painful reaction that was seemingly bound to ensue.

When once a depression has begun, owing to causes which have been imperfectly appreciated, or which may have proved not amenable to control, the question "What is the wisest policy for the bank to follow" must be considered in the light of the bank's own uncertainty as to how long the depression will persist, how much more serious it is going to become and the possible scale of its consequences. No cut and dried plan can be pursued when the management is confronted by these uncertainties.

Thus, I suggest, as I have already said, that wise management will naturally direct its efforts (1) towards maintaining the position of the bank, and (2) towards assisting established customers of the bank to weather the storm. It is necessary to discuss these two objectives separately.

(1) With regard to the former, it should be noticed that during the past 5 years there have been no less than three major crises of world-wide consequence. The first was the wide break in the New York stock market in October, 1929. The second was the unprecedented drain upon the gold reserves of the Bank of England in September, 1931, and the third was the sudden outbreak of hoarding in the United States in February, 1933, resulting in the closing of all the banking institutions of that country on March 4th of that year. Is it too much to claim that by the mere fact that the chartered banks of Canada have maintained their own positions and left no grounds for panic in the minds of Canadian depositors, they have rendered a service to this country? There was no paralysis of business in Canada such as occurred in the United States last March. Such a paralysis of business would have led inevitably to restrictions of credit, due to the narrowing of business opportunities that would have followed the hoarding of money. The fact that the public had confidence in the safety of its deposits resulted in the continued circulation of money in Canada and enabled the banks to continue their assistance to borrowing customers in a normal way.

(2) With regard to the latter of the two objectives mentioned a few moments ago, viz: that of assisting established customers of the bank to weather the storm, our policy has been to deal with borrowing customers primarily with a

[Mr. H. F. Patterson]

view to conserving their assets and maintaining their business as a going concern. This does not necessarily mean that the bank has assumed an obligation to provide borrowing customers, however solvent they may be, with funds on any scale that the customers may have seen fit to demand; for a banker may sometimes render a signal service to the borrowing customer by discouraging him from undertaking a commitment which to the detached critic is obviously fraught with danger. The banker who was prepared to place funds at the disposal of borrowing customers uncritically would not only be jeopardizing interests which have been committed to his care—he would also, in times of serious economic disturbance, often be doing a grave dis-service to the borrowing customer himself. Nevertheless, I have no hesitation in saying—and this has not been characteristic of The Bank of Nova Scotia alone, but, I believe, of the chartered banks of Canada generally—that the key-note of Canadian banking policy has been to go to great lengths in carrying borrowing customers during a crisis, provided that the position of such customers is not obviously hopeless from the first, and provided that previous experience has satisfied the lending bank as to the character and resourcefulness of the customers whose interests are under consideration.

With regard to the second part of the paragraph numbered (2) in the motion of Mr. Power ("To what extent the said banks are responsible for the drastic deflation from which the country suffered and is still suffering"), it is very difficult to discuss briefly so complicated a question, and the Committee will realize that the problem is essentially technical.

Briefly, however, it may be said: Firstly, that the fall of prices, which is the essential expression of the deflation, was not confined to Canada, but that the same fall of prices has occurred all over the world.

Secondly, and this I would like to emphasize, that this fall of prices did not originate in Canada, but that wholesale prices in the principal countries of the world had already begun to fall, while the level of prices in Canada was still rising during the summer of 1929. The Board of Trade index of wholesale prices in the United Kingdom reached its peak in March, 1929. The index of French wholesale prices of the Statistique General of France was at its highest in the same month. In the United States the index number of the Bureau of Labour Statistics was at its highest point in July, 1929, while the index number for Canada reached its peak in August.

Thirdly, that whereas the peak in wholesale prices in Canada was reached in August, 1929, current loans continued to advance until October when they were at their maximum. When allowance is made for seasonal influences, the current loans in Canada of the chartered banks were actually at their highest in February, 1930.

The plain inference from these facts is that in looking to the relationship between the decline of wholesale prices in Canada and the shrinkage of current loans, the latter (that is, the shrinkage of current loans) should be regarded as proceeding from the former (that is, from the decline of wholesale prices), and not as being the cause of it.

If consideration is given to the general situation prevailing in Canada at the time commodity prices began to fall, we think that it can be established that the decline in loans is a natural result of the decline in commodity prices. It is axiomatic that whenever there is a fall in the prices of commodities a diminished volume of Bank credit is required to finance a constant volume of trade in commodities. The borrower, himself, feels that he would be safer in a period of declining commodity prices with a smaller line of credit than that which he would otherwise have required and expected. Fear on the part of business men may lead them spontaneously to discontinue their commitments, and they do this entirely without pressure from the Banks.

As the fall in prices continued and the depression deepened, from 1929 onwards, not only did the borrowing needs of customers shrink in keeping with the decline in the dollar value of their inventories (for the replacement of materials and supplies was rapidly becoming cheaper), but the volume of their business was also shrinking, and they themselves, purchasing on a falling market, became, as previously stated, increasingly reluctant to make commitments ahead. Naturally business men hesitate to take on liabilities in the form of bank loans unless conditions, in their judgment, are such as to enable them to make a profit from such borrowings. Thus, we feel that it is reasonable to state that the decline in current loans was brought about as a result of the fall in prices and that pressure on their borrowing customers by the Banks did not initiate the decline.

It is perhaps worth while to look at the level of commodity prices and bank loans in a total in the early and later years of the depression, and I would like to give you certain statistical facts taken from the Canada Year Book, 1933 edition. The references are to pages 803, 899, and 912. The first three are averages for the year 1929 as a whole and the year 1932 as a whole, and the last is the total for each of the years.

	1929	1932
Government index of wholesale prices (1926=100)..	95.6	66.7
Other current loans and discounts in Canada, of the Canadian chartered banks..	$ 1,343 millions	$1,032 millions
Deposits made in Canada, other than that of the Dominion Government.	$ 2,215 millions	$ 1,900 millions
Bank debits at the clearing house cities of Canada..	$46,670 millions	$25,844 millions

In a comparison of 1929 with 1932, it will be seen that the level of wholesale prices was lower by about 30 per cent in the latter year, than in the former. The corresponding reduction in the total of "Other current loans and discounts in Canada" was a very little more than 25 per cent. On the other hand, it may be calculated from the above table that the rate of turnover of bank deposits (which is roughly synonymous with the readiness of the public to make financial commitments) declined in the proportion of almost 36 per cent.

The smallest of these three figures was the decline in "Other current loans and discounts"; the largest was the decline in the rate of turnover of bank deposits. The obvious deduction from our table may, I think, be expressed as follows: that the strongest of the deflationary influences in Canada, during the current depression, has been the reluctance to spend the balances at their credit, on the part of the consuming public, and of business men generally.

In conclusion I would like to repeat that in any consideration of the whole problem we must not overlook the fact that the depression was literally world wide and that while in this country we admittedly had an overextended situation in the stock market, the economic breakdown was not initiated here; instead, it occurred as a result of developments elsewhere and we were caught in the maelstrom which had already engulfed many other countries. Such being the case, remedial action attempted by any one country, especially a country like Canada, which after all is a minor unit in the world economic system, could not have corrected a situation which essentially was world wide. But by pursuing the two objectives mentioned already the chartered banks have been an effective influence in ameliorating a situation which, had they been less solicitous of the needs of their depositing as well as their borrowing customers, would undoubtedly have been worse than anything we have actually experienced.

The CHAIRMAN: We will adjourn until 8 o'clock.

The committee adjourned at 6 P.M. to resume at 8 P.M.

[Mr. H. F. Patterson]

EVENING SITTING

The committee resumed at 8 o'clock p.m.

The CHAIRMAN: I think we might as well proceed with Mr. Patterson.

Mr. PATTERSON, recalled.

By Mr. Spencer:

Q. At the end of the paper Mr. Patterson read to us just before adjournment, I understood him to say that the banks were not responsible in any shape or form for the drop in prices on the present price cycle through which we are going. Did I understand from what he said at the end of his report that the banks claimed they were not responsible in any shape or form for the present prices?—A. Quite right.

Q. May I ask if it is possible for the banks to increase the amount of money in existence from time to time?—A. Well, I do not believe they can.

Q. Do you admit that money is increased from time to time?—A. Yes, I will.

Q. How is it increased?—A. Well, it may be done by government issues, through inflation or otherwise with the proper reserve fund behind it.

Q. Would you explain what happens when the government makes a bond issue which is taken up in this instance by the public?—A. Well, I think behind the whole liability that might be incurred in that respect, Mr. Spencer, there must be some reserves maintained either by the government or through the banks. There may be surplus of reserves in the banks which may be used to buy government bonds rather than to make loans.

Q. That is not exactly the answer to my question. I want to know what happens when the government makes a bond issue. You say the banks do not put new money into circulation. Money is sometimes put into circulation through government issues?—A. May I qualify. A bank may put money into circulation by created credits for the time being. You make a loan and issue cheques against that and put it into circulation by paying off your debts or buying something in the way of commodities.

Q. I appreciate that reply, because I think it is to the point. That being so, if money is put into circulation out of proportion to goods, is not there a tendency for prices to rise?

The CHAIRMAN: Inflation, in other words.

By Mr. Spencer:

Q. Yes. If loans are made out of proportion to the goods going onto the market, is not there a likelihood of prices rising?—A. I think that would be quite true if people were disposed to spend their money.

Q. On the other hand, would you say that the banking companies have the power of curtailing the amount of money at any time by calling in and cancelling loans?—A. Undoubtedly, if the banks, say, overnight called in all loans, it would make a tremendous difference in the amount of purchasing power available.

Q. Would you say, then, that every time a loan is cancelled an amount of money equal to the loan is written out of existence?—A. Well, I do not want to say that. It is more or less of a cancellation of a loan against a deposit. A deposit, in other words, might not be used to go into circulation; but to cancel a loan or a borrowing by a person into whose possession it came.

Q. You have admitted, on the other hand, that the bank does and can put into circulation money, which is well known, by making loans. Therefore, would it not naturally arise when they cancel loans they take money out of existence?—A. A circulating medium might be contracted in that way.

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Q. And, therefore, if money was cancelled out of existence too rapidly would not it have a tendency to deflate prices, or lower prices?—A. Are you inferring that the banks have done that?

Q. I am not inferring anything. I am trying to get at some facts?—A. It might be done if the banks were foolish enough to call in their loans. Naturally it would have a tremendous effect.

Q. And even if they called them in fairly rapidly—for instance, I am not criticizing the banks in this instance—I think they follow the law of self-preservation—when the break came in 1929, naturally at the peak of the boom the banks had huge loans out everywhere. As prices began to drop the banks' securities naturally dropped in value, and the next thing would be, as the securities began to drop, if they got below what the banks thought was the value they would press for liquidation.

The CHAIRMAN: Not necessarily that.

By Mr. Spencer:

Q. I think in self-preservation they would do it, would not they?—A. I think the banks did not do any such thing at all. We might have found ourselves getting into the position where our collateral may have been impaired, and our first endeavour would be to remedy that situation, but not by calling in the loan.

Q. You have an alternative?—A. We have an alternative, but we do not want to call the loans.

Q. Between 1929 and 1933 there was an amount of money equal to $704,000,000 taken out of existence?—A. May I ask what you mean by money there?

Q. Total loans in this instance; and deposits dropped also, because when a loan is cancelled I think you will recognize that the deposit is also cancelled, but an amount equal to the amount cancelled would be taken out of existence.

The CHAIRMAN: Do you say that invariably follows?

Mr. SPENCER: It invariably follows.

The CHAIRMAN: Invariably?

Mr. SPENCER: I would say so. That is a point I am trying to get at.

By Mr. Spencer:

Q. In these four years there was a distinct drop in the amount of money in existence. Now, that naturally had the effect of dropping prices. I am not saying that the banks had any alternative, but the fact is that their action to save themselves has had something to do with the fall of prices?—A. Well, I have not admitted that in the brief I prepared. I took the position that the fall in prices preceded the fall in loans.

Q. Yes, I know you said that. The point I was asking the witness was with regard to the falling off in the amount of loans between 1929 and 1933 which amounted to $704,000,000, and that fall was so great in the loans made in those four years that it naturally had the effect of helping to force down prices?—A. That, I assume, covers stock exchange values as well as commodity values. Loans cover those.

Q. Or anything else; all loans?—A. Yes.

Q. I appreciate the point, however, that you have admitted that the bank can in our up-to-date banking system increase the amount of money in circulation by making loans, and then can decrease the amount at other times by calling in loans?—A. Well, let us admit that.

Q. Pardon?—A. I say let us admit that.

Q. That is the point I want to direct attention to, because at the end of your address you attempted to tell the committee that the banks are not respons-

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ible in any way. I think they are certainly responsible, partly anyway, from the fact that they have that power of increasing the amount of money in circulation and also decreasing the amount, and that will have the effect of altering prices, either increasing or decreasing?—A. Having the power does not necessarily mean that they are going to exercise that power.

Q. Sometimes, under the system, they may have no alternative but to exercise it; that is my point?—A. I do not know about that.

By Mr. Duff:

Q. I hesitate to ask any questions, when we have so many important economists in the committee; but I notice that Mr. Spencer, in addressing his questions to Mr. Patterson, talked about money. I did not know such a thing existed. I thought it was credit. And when Mr. Spencer talked about increasing the money, or reducing the money, did he not mean credit in each instance?

Mr. SPENCER: If I might correct Mr. Duff. He probably was not in the committee this morning, but the witness this morning admitted that anything that functions as money is money.

Mr. DUFF: There is no such thing as money; it is credit. I would like to have that properly settled.

The WITNESS: Mr. Spencer, may I suggest this that in the contraction of loans it may have been offset by an increase in investments.

Mr. DUFF: I wonder if Mr. Patterson would answer my question as to whether there is such a thing as money—if it is not credit and commodities?

The WITNESS: No. I would not call commodities money.

Mr. SPENCER: It would be rather nice to know what money is according to the witness.

The CHAIRMAN: That is theory. Do you think we want it?

By Mr. Coote:

Q. For the satisfaction of Mr. Duff, might I ask Mr. Patterson this question: in the generally accepted use of the term money, are both currency and bank deposits included in that term?—A. No. I would not call bank deposits money.

Q. Suppose I have $1,000 on deposit?—A. I think a deposit can be converted into money; but if you come in with a cheque to me and I give you a Dominion of Canada note or a Bank of Nova Scotia note you might consider you have money in your pocket to spend; but while it is dormant in the bank it is not money.

Q. If I have $1,000 in the bank, I am supposed to have $1,000?—A. Yes.

Q. And when you talk about the people of Canada each having so much money in the savings banks, you talk of that as money?—A. Money is a word very loosely used.

Mr. DUFF: Is it not a misnomer?

The WITNESS: I think there are some things you can call money.

By Mr. Coote:

Q. Mr. Patterson, in his presentation, I think, gave us figures of the wholesale price level in Canada, and if these figures are not correct I would like to be corrected, because I heard him from the back of the room. The wholesale price level in Canada stood at 95·6 for the year 1929 and had fallen to 66 in the year 1930?—A. 1932.

Q. Yes. That represents a fall of 30 per cent, and I wonder whether Mr. Patterson had the comparative figures for any other countries?—A. No, I am sorry I have not.

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Q. The reason I asked was this: the witness we had this afternoon suggested that Canada was coming through this depression perhaps in about the best shape of any country we know of, and I would like to have these figures if they are available. I think they would indicate the true comparison.

By Hon. Mr. Mackenzie:

Q. Appropos of the questions I asked Mr. Dodds this afternoon, does the same apply to the Bank of Nova Scotia with regard to the discretion that is given to their branch managers in various portions of the country?—A. Well, we generally give discretion to all our branch managers, according to their ability, capacity and calibre.

Q. There is no uniform policy; it depends on the experience and ability of the individual manager?—A. Yes. And the size of the branch, of course, and the importance of the position.

Q. In regard to gold reserves held by the banks, generally speaking what percentage of the gold reserve is being used for foreign exchange purposes?—A. You mean generally speaking or at the moment?

Q. Well, as particular as you can be. I realize it is very difficult to answer that question. Let me ask you this: The reserves, generally speaking, held by the banks of Canada amount to about $40,000,000. What percentage of that would be used for foreign exchange purposes?—A. I do not think that the banks themselves have ever had any definite idea in their minds as to what amount of gold should be available for their foreign exchange purposes.

Q. If you strike a general average I would be quite satisfied?—A. I would not attempt that Mr. Mackenzie. I do not know what it would be, generally speaking. Each bank has to make up its own mind because they all have different kinds of liabilities.

Q. Can you speak from your own bank's point of view with regard to that?—A. No.

Q. Would it be 10 per cent or 20 per cent of the gold reserve required for foreign exchange purposes?—A. No, because the world, generally speaking, is not on a gold standard. I do not think that worries us very much at the moment because gold is not permitted to be shipped out of very many countries, as far as I know. We ourselves have gold that we hold against our foreign liabilities and we look to that to protect our foreign liabilities.

Q. Under the Central Bank Bill the same gold is taken over by the Central Bank on the valuation of $20·67 an ounce; the gold as held for foreign exchange purposes is going to be left to the banks, and I would like to get from you an approximate idea of the percentage of the total from your working experience in banking that will be required for foreign exchange purposes?—A. I am sorry I cannot give you even an approximate idea, Mr. Mackenzie. It would be difficult to tell you what the percentage would be.

Q. From your experience, taking the past ten years, what percentage of your gold reserve would have been used for your ordinary foreign exchange purposes?—A. I cannot possibly tell you that. That is something I cannot tell you.

Mr. Dodds: We consider that the whole of our gold is available for our foreign exchange purposes.

The Witness: I understood Mr. Mackenzie to ask me what the percentage was.

By Hon. Mr. Mackenzie:

Q. That is not my question at all, that is just a red herring, with all due respect. I quite understand that every bank would like to have all the gold available for foreign exchange purposes, but my question is what is the per-

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centage of the total of gold held that would have been used for your ordinary foreign exchange purposes, and that is the question which you, Mr. Patterson, could not definitely answer?—A. I think I might very well say that we hold all our gold against our foreign exchange operations because we look to our gold to protect our foreign liablities.

Q. Do you realize that under the Act all the gold for internal purposes is being taken over by the Central Bank?—A. I think some reference is being made that cognizance will be taken of that.

Mr. Irvine: Following that up, if in the good old days when we were on a gold basis we held all the gold for foreign exchange purposes what would they have behind their notes at home?

Mr. Dodds: All our assets.

Mr. Irvine: I am glad to hear that.

By Mr. Duff:

Q. You were talking about the gold being held for foreign liabilities. Are you allowed to send out gold now to protect your foreign liabilities?—A. We could if we had a licence.

Q. In other words, you cannot do it unless you get a licence?—A. That is right.

The Chairman: Are there any other questions that any member of the committee would like to ask Mr. Patterson? If not we will take up the next witness. We will ask Mr. Wilson or Mr. Logan to take the stand.

Witness retired.

S. H. Logan, recalled.

Mr. Chairman, we have been asked "What general policies did banks adopt to combat the depression and the extent of the banks' responsibility for the drastic deflation?"

This depression, as everyone knows, has not been merely a local calamity but one which has affected the whole world. In Canada one of the main causes of our economic difficulties was the rapid and continuous fall in the prices of those primary products which constitute so large a part of our exports. Not only was this fall almost incredibly severe (wheat, for example, selling at the lowest price in over three hundred years), but the widening spread between the level of prices of primary products and of manufactured goods has had a stifling effect on trade of all kinds.

The prices of our primary products, however, are determined not in this country but in the world markets where they meet the competitive selling of other nations. No policy, therefore, could have been, or can be, adopted by Canadian banks which would help to raise these prices.

The depression was further intensified for us by the fiscal policies of some countries formerly substantial importers of our produce. They, to protect their own domestic situation, imposed ever-increasing tariffs which seriously restricted our flow of exports, and in some cases completely blocked the entry of certain of our commodities to their markets; for example, wheat to France and Italy, and lumber and cream to the United States.

The banks did take certain steps before the depression developed which I believe lessened its impact on this country.

Beginning in 1927 the branch managers of my bank were warned—more and more strongly as time passed—of the dangers inherent in the stock speculation mania which was sweeping North America. They were instructed to restrict loans made for this purpose and to discourage applicants both by advice and by raising marginal requirements and interest rates. Doubtless other banks followed a similar policy.

In 1927 we commenced also to urge our commercial customers to strengthen their cash position and to warn them against being led by the general optimism into over-expanding their inventories and the volume of goods which they sold on credit. A very genuine effort was made to curb what appeared to us a dangerous trend in business practices.

While some heeded this advice, our effort on the whole was not notably successful. Almost the entire population of this continent was convinced that a new era had dawned which promised continuous and increasing prosperity. Mob psychology is hard to control and to the majority of people it seemed absurd that they should be denied or discouraged from accepting this golden opportunity to place themselves in easy financial circumstances. Bankers' efforts to damp down the rapidity of the expansion were often resented as an unwarranted interference with business management or as an attempt through timidity to restrict a customer's legitimate profit. No doubt bankers gradually became infected in some degree by the general atmosphere but their optimism and confidence in the situation lagged far behind that of the public.

So far as I know, the bankers were the only ones who in those hectic days before the stock market crash voiced warnings of the dangers into which we were drifting. That they made mistakes of judgment in extending credit no banker will attempt to deny, but it is much easier to look back now and recognize what those mistakes were and what course should have been followed than it was to make the correct decision at the time.

One trouble, for example, was that those, whom the bankers discouraged from entering into some venture or speculation which seemed rash, were able during the greater part of the boom years to come back in a month or so and say, with truth "If you hadn't advised me against going into the deal upon which I had decided, I could close it out to-day at a very handsome profit."

It was only natural that a banker, whose conservative advice had repeatedly proved disadvantageous to those who accepted it, should develop some hesitation in pressing his views on customers, even though he retained his own conviction that the theories of sound banking in which he had been trained were fundamentally correct.

In recent months attention has been drawn to the fact that loans of Canadian banks fell between September, 1929 and September, 1933 from $2,358,000,000 to $1,427,000,000. Some people have assumed that this represented a decrease of $932,000,000 of bank credit in Canada due entirely to liquidation forced by the banks. They argue that it is this deflationary policy of the banks which has so greatly intensified the depression here. The figures quoted cover as a matter of fact total loans by Canadian banks, both in Canada and abroad. The decrease in the total of loans in Canada alone is one-third less or $655,000.000. That is still a pretty formidable sum, but it is not correct to say either that the amount of money in Canada available for purchasing goods has fallen by anything like that sum or that the banks are mainly responsible for the reduction in total loans.

I would point out that the banks during this same period, lacking demands for loans which they could grant wth reasonable assurance of obtaining repayment, increased their security holdings by $400,000,000. Security purchases by the banks are, of course, merely another form of making bank loans. If a government sells an issue of bonds it is borrowing money from the purchasers, whether banks or others, and even if a bank buys bonds from the public it is taking over loans which the public had already made to the government which floated the issue. The purchase of these securities, increasing as it did by $400,000,000 the supply of money in Canada, went a long way towards offsetting the loss of $655,000,000 resulting from the repayment of loans.

[Mr. S. H. Logan]

I should like to present to you some evidence which I think will convince you the belief is unwarranted and untenable that the shrinkage in total loans was due to an unnecessarily restrictive loaning policy by the banks.

Trade in Canada from 1927 to 1929 was very active and inventories of raw material and merchandise were fairly substantial, though by no means so excessive as in 1922. You will remember that in the latter year a post-war slump in prices took place and merchants, both wholesale and retail, got a very painful lesson as to the smarting losses which heavy inventories could cause under such conditions. The lesson had not been forgotten in 1929 and shrewd business men, as soon as they sensed the possibility that a sustained fall in prices might be commencing, began voluntarily for their own protection to reduce inventories to the barest minimum requirements. As prices continued downwards they bought far smaller quantities to provide essential replacements only and, as these replacements were purchasd at lower prices, they obviously required less and less borrowed money to carry on operations.

Unfortunately no statistics are available upon which to base an assured estimate of the value of inventories considered excessive because of the change in the business outlook.

That the value in the aggregate was very substantial and that excess inventories were sold as promptly as possible can hardly be gainsaid.

As borrowers realized funds from these sales, they voluntarily applied the proceeds on their loans and if I may hazard a guess I would say the reduction in loans from this source alone might conservatively be placed at $50,000,000.

There was as well a substantial amount of voluntary liquidation by brokers of the loans they had obtained from the banks. Many of their clients, deciding to save vanishing paper profits, sold their holdings promptly and covered their liability to the broker. Others, unable to reinstate impaired margins, were sold out by the broker in self-protection. Again, only a guess is possible as to the extent of voluntary loan reduction by brokerage houses, but I believe that payment of loans from this source would be at least $100,000,000.

We go to firmer ground when we consider the effect on inventory cost of the fall in prices between 1929 and 1933/34. I shall give you a few examples of how much less money is required at the present time to finance the same quantity of commodities or merchandise as was carried in 1929.

Take wheat first. The Canadian visible supply in January, 1929, was 230,000,000 bushels. I think it is a conservative estimate to say that when wheat comes into the " visible " category at least two-thirds of it is carried by loans from Canadian banks. That would mean that in January, 1929, 150,000,000 bushels were being financed in that way. The average price of No. 3 Northern during January, 1929, was about $1.12 per bushel, while in January, 1934, it had fallen to about 59 cents. To carry 150,000,000 bushels would, therefore, require bank loans, in 1929, of $168,000,000 but, in 1934, of only $88,500,000.

Lumber gives a similar picture, though unfortunately the statistics I have obtained cover only a part of the production in British Columbia. Stocks on hand, reported by the British Columbia Lumber Manufacturers' Association, were in January, 1929, over 277,000,000 feet. The average prices in January, 1929, and January, 1934, respectively, were $20.80 and $13 per thousand feet. Let us say the banks finance 200,000,000 feet. Then, bank loans necessary to carry this lumber would be $4,160,000 in 1929 and $2,600,000 in 1933. Quebec lumber loans must show the same trend, for average prices there fell from $30 to $20 per thousand.

These are valid and convincing reasons for a large shrinkage in loans apart entirely from any pressure being exercised by the banks. You will find the same situation in almost every branch of trade and industry. Wholesale prices between September, 1929, and 1934 have fallen 30 per cent, retail prices 22 per

cent. Cheaper inventories tend to reduce substantially the assistance which the merchant or manufacturer requires from the bank for his operations and the reduction comes about because he needs and asks for less money and not through any bank action.

Banks have, of course, in a number of cases found it necessary to force the liquidation or reduction of customers' loans. There were, for example, merchants and manufacturers who, despite warnings, made no effective effort to strengthen their position and consolidate their resources. Some retained large inventories, valued above the market prices, hoping for an early recovery which would enable them to escape the loss they were facing. In all too many cases this policy led them to the verge of or actually into bankruptcy. Others, through granting generous credit to numerous weak concerns and repeatedly extending the time for repayment by their debtors without investigating their true financial position, found when a crisis came in their own affairs that a high percentage of their accounts was uncollectable or realized much less than face value.

I think I am safe in saying that neither in this nor in other depressions have the Canadian banks forced the liquidation of any customer's loan unless they believed that the recovery of the money which they had lent was becoming seriously endangered through the dissipation or the disintegration of the borrower's assets. I might go farther and say that no new loan which the banks believed was reasonably safe has been refused, though, of course, I exclude loans required for capital expenditures repayable only at some remote date. Such loans, as you know, are not proper banking transactions. This was the policy followed by my own Bank, and I feel assured that it was also that of my competitors since it is distinctly more advantageous to a bank from the point of view of income to make loans than to purchase securities.

No bank which has a due sense of responsibility to its depositors dare deliberately undertake to carry, on a falling market, a large volume of loans for borrowers whose assets have already shrunk in value to or below the amount they have borrowed. To do so would be to endanger the solvency of the bank by gambling that prices will at some time in the future recover to a level at which the borrower will be able to dispose of his assets for a sum sufficient to pay his debts in full. The desired price level may not be reached for several years. In the interval the loan is frozen and the effect of a high proportion of frozen assets in a banking system has been demonstrated too recently to require emphasis.

On the other hand, no banker wants to see any business man driven to the wall, nor any farmer dispossessed of his land if it can possibly be avoided. Should there be anything in the borrower's position which holds out a reasonable hope that he may be nursed back to financial health a bank, in its own interests, will go to great lengths to assist his recovery. Indeed, the banker when attempting to estimate the future trend has in many cases given the borrower, rather than the bank, the benefit of any doubt—of course which not infrequently has proved costly to the bank.

In periods of depression it is almost inevitable that the banks will be accused of denying credit to worthy borrowers. During 1932, as a result of such criticisms of bank policy the United States Government authorized the Federal Reserve Banks to grant, at their discretion, loans to finance the current business operations of those who could not obtain advances from the commercial banks. The history of this effort to right a supposed wrong is interesting. The Deputy Governor of the New York Reserve Bank recently stated that in the eighteen months ending last December the Bank received 1,286 applications for such loans. Of this number 1,036 could not be given favourable consideration because the funds sought were not for legitimate commercial purposes such as a bank may reasonably be expected to finance but were required to meet personal

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obligations or to provide for capital outlays impossible to repay except over a period of years. The remaining 250 applications were thought to warrant and were given a detailed investigation. In only 14 of these 1,286 cases did the Reserve Bank feel that the applicant's position justified it in making the loans and, as an indication that the bank gave the most sympathetic and generous consideration to the claims for credit by each applicant, the Deputy Governor stated that two out of these 14 borrowers had since then gone into bankruptcy. Of the total amount which the bank actually lent less than half has as yet been recovered. I venture to say that the statistical results of a similar experiment in this country would not differ in any great degree from those I have outlined.

It would be foolhardy of me to offer any dogmatic comment on intricate economic theory. I feel, however, that sufficient weight has not been given to the immense influence exercised on the business situation when a number of people simultaneously reach an independent decision, either to borrow, to save or to spend money. Many will not borrow now because the risk of loss seems greater than the prospect of profit. The banks cannot force them to do so. Spending has also slowed down since 1929 from a gallop to a saunter. From calculations made in my own Bank it appears that the rate at which our total savings deposits turned over in 1929 was about $2\frac{1}{2}$ times in that year, while in 1933 this rate had fallen to little more than $1\frac{1}{2}$ times. If these rates of turnover are applied to the total of Canadian savings balances in all the banks it would appear that savings bank depositors in 1929 spent about $3,600,000,000 and in 1933 only about $2,300,000,000. A reduction in the amount spent in a twelve-month period of $1,300,000,000 in a country as small as ours must have a startling effect on the total volume of trade. To look at this factor from another angle, savings velocity decreased by 37 per cent while total savings deposits decreased by only 7 per cent. These calculations indicate, I think, that the influence of the velocity of money on the economic situation deserves a great deal more study.

May I summarize the picture which I have tried to place before you in this outline.

The banks, from the early days of the boom, strove by their advice and influence to keep the development of business on sound and solvent lines. Mistakes were made and over-generous credit was granted in some cases, for bankers are only human and their judgment is fallible.

To try to check dangerous developments was the effort that the bankers made—the only one in their power to make—to combat the effects of the reaction which they believed would follow.

Business, however, whether personal or corporate, when it controls substantial funds, is independent. Banks cannot dictate but only recommend and good advice often went unheeded.

In one other respect Canadian banks saved this country from the worst effects of the depression. When the crisis came it found the banks strong in liquid resources. Throughout these four bitter years, depositors—and there are several million of them—have found no cause to fear for the safety of their funds. Balances could be withdrawn when cash reserves were needed. Canadians have at least been spared the heavy losses and heart-breaking anxieties which a weak banking system would have brought upon them.

On the second part of this question I have presented some evidence to you which I think will convince fair-minded men that the banks have followed no harshly restrictive loaning policy.

No reduction in loans was forced except to consolidate and strengthen a borrower's position which was dangerously extended and threatened his financial collapse. No borrower was sold out unless his re-establishment was believed to be beyond hope. No new loans have been refused if the probability of repayment seemed reasonable.

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It must, I think, be obvious to those of sober thought that banks cannot jeopardize their solvency and the safety of their depositors by courting too many losses.

As an indication of the policy which my Bank has tried to follow throughout the depression, may I quote from a Circular issued to our branches in July, 1932, a time when the outlook seemed darkest.

> It must not be assumed that we do not appreciate the difficulties of the problems facing Managers in these days of widespread financial stress during which many individuals and corporations are facing operating losses, especially the problem of what to do with the accounts of old customers which for various reasons no longer measure up to the Bank's standards of desirability. The safety and liquidity of the Bank's position in each account still must be the paramount consideration, but this does not necessarily mean compelling customers to sell securities, inventories and properties of various kinds on markets so demoralized that a reasonable relationship of price to intrinsic values often does not exist.
>
> It is easy to become panicky and to pursue a forcible liquidation policy irrespective of future effects. Such an attitude is destructive not only to the community at large, but to the goodwill towards the Bank which is one of its chief assets. It takes a much better balanced judgment to distinguish between the account which has no future and should therefore be liquidated, and one in which an orderly repayment of the Bank's loans—even if slow—can be expected on a basis which would leave the customer a reasonable prospect of working out of his problems, but this keenness in discrimination and constructiveness is what the public expects of a banker.

I would ask you to weigh the facts I have submitted and I believe you will come to the conclusion that the deflation in this country was part of a world-wide economic readjustment from which we could not escape and that you will recognize that the responsibility for this deflation cannot therefore be placed upon the Canadian banks.

In connection with this brief, I have here a classification of our loans in 1929 and 1934. I do not know whether you would like to have that recorded or not.

The CHAIRMAN: I think that would be of great interest. You have a long tabulation under 16 different headings. It might be interesting to put it in the record.

Mr. IRVINE: We would not get much out of it if he just read it. I think it would be better to incorporate it in the record. (See Appendix "X.")

By Mr. Power:

Q. I do not know if there is much we can say in answer to that brief. In theory this is very much the brief that we have been endeavouring to hold here for some considerable time; but I should like to ask one or two questions. Would it be fair Mr. Logan to ask you to produce a copy of the letter you sent to your managers in 1927?—A. 1927.

Q. A confidential letter?—A. We sent out several circulars, giving general warnings.

Q. On over-expansion. Would it be fair to ask you to produce that letter?—A. I shall be glad to send extracts from them—a great number of them—similar to what Mr. Dodds put before the committee; they were sent out both in 1927 and 1928.

Q. May we have a copy of such a letter produced?—A. Yes; we can supply the committee with that.

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Q. I understand from the reading of your brief that you advised all your branch managers, in so far as they could, to prevent their clients from indulging either in stock speculation or over-expansion of their business?—A. Both from a commercial standpoint and with regard to stocks we pointed out the dangerous situation.

Q. Then you say you found you were not very successful?—A. That is correct.

Q. Can you tell me why? Can you explain to me why you had not been able to create sufficient effect, or is that a fair thing to ask you?—A. I do not think that anyone could have controlled the mob psychology of 1928-29, which struck the whole of this North American continent.

Q. Perhaps it may be unfair to you, but I put it this way: Would there be a fear amongst the banks if they were unduly restricted in their dealings with their clients, that those clients would go to a competitive bank?—A. No, that could not enter into the question at all. What the banks had in mind was that speculation was rampant, and it was our duty to point out to the customers it would end in disaster.

Q. But as a matter of fact you have stated you were not always successful?—A. That is perfectly true, because money came from other sources; we could not control that.

Q. May I ask what you mean by that, that money came from other sources? —A. Money came in from the States for stock market speculation; money came in from outside sources.

Q. Apart from stock market speculation?—A. I was thinking more of that, the medium of stock market speculation. There was all sorts of speculation going on, and the banks did not supply the money; but the brokers got call loans. They got money just the same and the money came from other sources.

Q. They got call loans from the banks in many cases?—A. Yes, but they got call loans from other sources as well.

Q. To a certain extent the surplus assets of private corporations, as I understand it, and largely from the banks?—A. A lot of money came from the United States.

Q. A lot of money came into Canada?—A. A lot of money came into Canada.

Mr. GAGNON: From investment trust companies?

The WITNESS: No, I mean money that was put up on call.

By Mr. Power:

Q. Sent to Canada and put out on call here?—A. A lot of money came from outside sources. I am quite clear on that.

Q. That is a rather interesting suggestion, and it is the first time I have heard that brokers in Canada could obtain money from outside sources without dealing with Canadian banks at all.—A. Oh, no question about it, and the brokers are probably doing it to-day. The banks are not making any great amount of loans on call to-day but the brokers get the money just the same.

Mr. HACKETT: The record of the bankruptcy of brokers made it very clear.

The WITNESS: Yes.

Mr. MACMILLAN (*Saskatoon*): Solloway-Mills et al.

By Mr. Power:

Q. I did not get the end of a statement you made a while ago, but you said your loans in Canada and your loans outside of Canada had decreased by something like $932,000,000; is that right?—A. Yes.

Q. $655,000,000 decrease in Canada?—A. Yes. $900,000,000 and some odd decrease in total loans, I think it was, and $600,000,000 and some odd decrease in Canada.

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Q. That is to say, two-thirds were in Canada and one-third outside Canada? Now, what did the banks do with that money that came from outside?—A. No, in those figures I had reference to the total bank statement in loans in Canada and out.

Q. As I understood it, there was a decrease in the amount of money loaned of $931,000,000 altogether, including outside loans and Canadian loans between 1929 and 1933?—A. Yes, of which $655,000,000 was the decrease in Canada.

Q. That was decreased in Canada?—A. The decrease in Canada.

Q. In loans in Canada?—A. Decrease of $932,000,000 in bank credit in Canada and abroad which is mistakenly supposed to be due entirely to liquidation forced by the banks, $600,000,000 decrease in Canada, and $300,000,000—

Q. What became of the $300,000,000?—A. I think one of the things that most people overlook is this, in 1928 and 1929 the call loans made by the Canadian banks in New York were enormous. They show in the government statement; but we have to bear in mind that all that money did not come from Canada. That money came to New York from all over the world and that accounts for the tremendous increase in the banks' call loans in New York. Our excess call loans in New York at that particular period, I would hazard a guess, would be at least $50,000,000 to $75,000,000 above normal; that money came from all over the world.

Q. May I ask what you mean by your "excess" loans and how it came from all over the world to be loaned by The Canadian Bank of Commerce?—A. In New York?

Q. Yes?—A. It was attracted by the high money rates.

Q. How did it come to your banks, or to any Canadian bank?—A. We had foreign correspondents. That money came from all parts of continental Europe, and it even came from China. I shall never forget one transaction at one particular time, showing the money rate in New York, which ran from 10 to 12 over night. We had a cable from China to loan out $2,000,000?

Q. You were loaning Chinese money?—A. Chinese money, but it happened to be U.S. dollars.

Q. And has to be paid in real money?—A. It was U.S. dollars but they supplied the money.

Q. How much of the money which was returned to the bank, after calling loans, was put into government bonds?—A. How much of ours, all told?

Q. All banks. Have you got those figures? I am speaking of government bonds.—A. The total amount that went into government bonds will be something like $400,000,000.

Q. That is from 1929 to 1933?—A. We always carry an important portfolio of government bonds for the purpose of borrowing under the Finance Act, or something of that nature.

Q. Between 1929 and 1933 you carried an enormously increased amount of government bonds?—A. That is correct. Our own securities went up about $75,000,000, I should say to about $150,000,000. The total went up at least $80,000,000, and I assume with every other bank in proportion.

Q. You were keeping up government credit at the expense of the ordinary borrower?—A. Oh, no. When we are buying securities, we put money back into circulation; it is the same as though we make loans. We could not make loans, so we had to buy securities.

Q. You are getting me beyond my depth now, you will have to talk to some of my C.C.F. friends.

By Mr. Spencer:

Q. Did you use depositors' funds to buy those securities?—A. Naturally, we did.

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Q. Couldn't you buy them without using the depositors' funds?—A. What would you buy them with?

Q. With the credit of the bank?—A. To whom are you going to lend the money? If the borrower cannot get credit he won't borrow. You cannot make a man borrow money if he will not borrow. We cannot go up to John Jones and say to him, I want to loan—

By Mr. Power:

Q. When we come to that, my senior counsel will carry on. I gathered that apparently the reduction in commercial loans was due to the, may I call it panic, or may I call it justified fear of the ordinary commercial man, and it amounted to a figure of $50,000,000?—A. That is an arbitrary figure. That is awfully difficult to determine.

Q. That could not be the exact figure?—A. It could not be the exact figure.

Q. And the brokers' loans you could give a little closer?—A. I figured that at $100,000,000.

Q. That is brokers and persons who had borrowed, and there were thousands of people themselves who had been carrying stocks, and who did not like the look of this thing, and who were going to get out themselves. In addition to that you had a certain percentage of calling by the brokers?—A. The banks did very little calling. If we saw someone was in trobule—

Q. May I put the question in my own way. A great many of my friends speculated on the market, including myself, unfortunately. The time came during this speculative fever when they became somewhat panicky, and they said they felt they were better off in the hands of the banks, than the hands of the broker?—A. Yes.

Q. They borrowed money from the banks to pay off the brokers, and the banks carried them?—A. No doubt there was a lot of that, and there would have been a heap of it done if the banks would have done it; but what we found was the broker would say, you take your account out of here and get the bank to carry it, and then he would take on another account, which was just pyramiding. We would not do it.

Q. There was a great deal of that done?—A. Yes.

Q. What was the procedure of the banks under those circumstances, if the clients' stock fell below the margin which was required, depending entirely——A. What was our policy in that connection?

Q. Yes.—A. We—

Q. Called for margin, just as the broker was doing?—A. What we tried to do was make the customer see this. Now, you have to take here again the psychology of the particular period. Where the ordinary man would have bought 100 shares, he was buying 1000 shares. We carried out the psychology there by saying to our fellows, in calling their loans and checking the purchase of the thousand shares, "your load is too big; sell enough to keep your own account in shape so that you do not get out on the limb." Now, that is the policy we followed throughout.

Q. There was a certain amount of forced liquidation that way? The suggestion you would make to him if he had 1,000 shares was, you had better sell 400 or 500 at once, otherwise you will lose the whole thing?—A. No, the advice we gave was in this direction, reduce your loan, the baby is too big to carry.

Q. Now there is just one more question arising out of the brief you read. You gave us the impression that owing to the contraction of business, there was much less money required than there was before, and that accounts to a large extent for the decrease in loans.—A. That is correct.

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Q. Now, may I put it to you that that was perhaps putting the cart before the horse, that it would be perhaps the banks that brought about the curtailment of the loans, and then a curtailment of business followed?—A. No, I think that is not correct. I think the banks have been consistent throughout, trying to carry this situation as best they could, without putting anybody into difficulties. The list of customers we put into difficulties is very small.

Q. I do not understand?—A. We have tried not to put people into bankruptcy; we carried them on if we possibly could.

Q. Did I understand in the reading of your brief you were quoting from a circular issued in 1932?—A. Yes.

Q. Was the whole circular quoted or not?—A. No, I think the whole circular was not quoted, but only the outstanding part. The part that had reference to our attitude.

Q. Is that in your brief?—A. Yes, and it showed exactly what our attitude was.

Q. Following on the lines of questions developed by my friend Mr. Mackenzie this afternoon, no special instructions were given to your branch manager. It depends entirely on the size of the branch and to some extent on the ability of your manager, is not that correct?—A. To some extent, yes. We have a superintendent in each province, and a superintendent's limit is $25,000. His limit is the same as mine. I have to put every credit of $25,000 and over, before my Board. Now the superintendent in each one of those points can give $25,000, without referring to me.

Q. The superintendent can?—A. The superintendent can.

Q. You might come down to a small branch where the branch manager's limit would be $1,000?—A. Yes; on the average we give close to $2,000. I think to be exact on the average, at the moment, it would be about $1,750, but $2,000 is what we aim at.

Q. That is for the average on commercial loans, is it not?—A. Any part of the country from the Atlantic to the Pacific.

Q. Is that for what we might call a non-commercial loan, to a doctor or lawyer?—A. Yes, sundry loans, not the big commercial loans to lumbermen and all sorts of people like that, naturally large loans to them come before—

Q. They come before the inspector?—A. They come before the superintendent.

Q. The loan is under section 88?—A. Oh, not always.

Q. Has a branch bank manager any discretion under section 88?—A. Well, he has got his own discretion up to $2,000, whatever the type of loan may be. For instance, let us take a Vancouver man. Now, he has not got $2,000 discretion. I do not know what it is at the moment, but I would say $15,000; probably the Winnipeg man has $15,000, but it is gauged entirely on his ability—I call it the lever system.

Q. What I am trying to get at, is there any distinction between the loan you will make to the non-commercial, professional man, the doctor and lawyer, et cetera, and the man who has security under section 88, who is a merchant?—A. Well, when a man is borrowing under section 88, naturally he is a manufacturer or something, and he requires a great deal more money to carry on his business than the average individual in the small town. But when it comes to how much money can a man loan, then we are governed by whatever his limits are, say $2,000. It covers any kind of loan.

Q. It covers any kind of loan?—A. Yes, any kind of loan.

Q. We will take any small branch you like; you didn't mention any, but any small country branch where the limit is $2,000; and in that locality there is a merchant who is carrying a stock of goods of $20.000. Would your manager have any discretion in the matter, or would he have to refer to his inspector as to what he should loan under section 88?—A. No, he would have discretion, up to the extent of his discretionary limit.

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Q. Only $2,000?—A. That is all. Over and above that he would have to refer to his superintendent to get the credit authorized.

Q. No matter what the security was?—A. Broadly speaking, no matter what it was. It is, however, like everything else, if a man comes in and has $30,000 in Dominion of Canada bonds or something like that, and if the manager's discretionary limit is $5,000, and he would not loan the applicant $25,000, we would probably tell him he should have his head read.

Q. It is not a hard and fast rule?—A. No. It depends on the judgment of the man who is loaning the money. If we find a man who takes advantage of his opportunity and is continually loaning beyond his discretionary limits and he turns out to be a poor lender, he is liable to get rolled over a barrel or something like that.

Q. If during 1928 and 1929 he was exceeding his limit and making a lot of money, he probably got a promotion?—A. Well, he probably was somewhat exceeding his limits.

Q. Apart from the instruction given in 1927, calling to the attention of your managers that we were going through an inflationary period and they must take every means possible to restrict loans, were any other instructions of that nature given since that date?—A. 1927 and 1928?

Q. Yes?—A. 1927 and 1928 and 1929. The critical periods were 1927 and 1928. We jumped on these fellows in 1927. In 1928 it got more acute and by 1929—

Q. Well, in 1929 and 1930, did you hit them with the hammer or jump on them?—A. We did not hit them with a hammer. We jumped on them.

Q. Is that so?—A. Just about. We would not do it in 1929.

Q. You actually gave instructions to your bank managers in 1929 and 1930 that loans must be curtailed; is that a fact?—A. Now you are talking about speculating?

Q. Let us talk about anything that you like.—A. I am ready to talk about anything.

Q. We will talk about speculation first?—A. Stock loans are entirely different from ordinary loans.

Q. Let us take stock loans first.—A. All right.

Q. You told them to curtail first of all in 1927?—A. And 1928.

Q. And 1929?—A. Yes, with regard to stock loans, to keep them down.

Q. To keep them down?—A. Yes, that is correct.

Q. Then in 1930 you said, "Don't give them anything"; is that it?—A. Oh no. At no time did we shut off on our men making all sorts of loans.

Q. May I ask you this—and I am coming to the same thing that I was discussing with Mr. Dodds this afternoon—are you in any way responsible for the deflation in the value of stocks and bonds and other securities? I want to be quite frank; that is what I am trying to get out of you?—A. I would say no.

Q. If you forced your clients to sell, that would depress the market, would it not?—A. It would to a certain extent, but we did not say if you got a loan, "Now, clean out, clean house." We made him reduce his loan to the point where we felt that the man could carry it. It is an entirely different thing, selling 100 shares from selling 1,000 shares. It is an entirely different kind of policy.

Q. In the old days it would not have hurt probably; it would probably not have hurt a man to have been told to sell 1,000 shares, but in 1931 and 1932, if you told him to sell his 100 shares you put him on the street or on relief, is not that the fact?—A. Well, of course these fellows are optimistic. They think the stocks are going up. I suppose we would all be the same if we had a few hundred shares.

Q. There is no doubt about it that the policy, and the deliberate policy after the panic came along was to insist with your branch managers that they

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would be more careful, and not only be more careful in stock loans but that they would not loan any money at all in stock loans, is that not right?—A. No, that is not correct. We had no particular concern about stock loans after the crash in 1929. In fact, there were not many people left who had money to buy stock at all. But we were not concerned about ordinary stock loans after 1929, because the deflation of that particular aspect was pretty well over.

Q. Have you the figures, or have they been produced as to the stock loans in 1927, 1928, 1929, 1930, 1931, 1932 and 1933, from the different banks in Canada?—A. You mean all the banks?

Q. Yes, all the banks?—A. That could be found.

Q. Mr. Tompkins perhaps has it?—A. That could be found without difficulty.

The CHAIRMAN: The witness may not be familiar with the tables here, but you can get them from Mr. Tompkins. It is public information.

By Mr. Power:

Q. If it is public, it is all right. However, I have the figures here before me. This is a government return; I think I have the figures here. It is a return to an order of the House of Commons, April 10, 1933, showing as of October 31 of each year from 1914 to 1933 inclusive, call loans in Canada, and the total bank deposits in Canada, but I am not asking about that. It is just the call loans in Canada that I want. It shows this, that call loans in Canada rose from $74,000,000—I am speaking in round figures—in 1915, to $268,000,000 in 1929?—A. That was during the war.

Q. Would that be pretty well right?—A. 1929, $268,000,000.

Q. It may be from a different date; anyway, there has been a steady increase in call and trade loans in Canada from 1915 until 1929?—A. You could begin about 1924 and 1925, then you begin to see. It was then on an ordinary, even keel more or less. They began to run up in 1926.

Q. I will just give you the figure for 1915, which was roughly $74,000,000; then in 1924 it was $113,000,000?—A. Yes, that is correct.

Q. In 1925, it was $130,000,000?—A. That is correct.

Q. In 1926, it was $148,000,000?—A. That is right.

Q. In 1929, it was $268,000,000?—A. Yes, $268,000,000.

Q. That was at the time when you were writing letters and telling your clients, "Don't buy stocks"?—A. Yes.

Q. How could they buy stocks unless they had money? You must have been lending money all this time?—A. Well, from 1928 to 1929, there was not any tremendous increase there. It started in 1927. You take in October, 1927—

Q. You started in 1927?—A. $210,000,000.

Q. You started advising them to be careful?—A. 1927 and 1928 loans ran to $249,000,000.

Q. In 1928 you were still advising them to be careful, and, did you say, jumping on them?—A. Well, yes.

Q. The amount was $249,000,000?—A. But you are only getting an increase of $30,000,000 with the whole of Canada. That is not a terrible lot, and that includes all the banks.

Q. In the year of the grand crash there was $268,000,000?—A. Yes, and that went off to $250,000,000 in the month of November.

Q. Then you said you had no more trouble over the stock loans after the crash, but still in 1930 you say there was $214,000,000 on call loan?—A. They were gradually going down.

Q. Not only gradually; when you come to the next you will see they were gradually going down. It is then when you applied the hammer. I am suggesing the hammer was applied after the crash instead of before?—A. No, that is not right.

[Mr. S. H. Logan]

Q. Because in 1930, loans were $214,000,000; in 1931, they were $158,000,000, and then for some reason or another they went up in 1932. In 1933, you jumped on them with both feet, because loans then were only $110,000,000?—A. No, that does not follow, that because call loans went down, we were the cause of putting call loans down. The whole psychology had changed. The public were fed up with gambling. What they thought they were going to make millions of dollars out of did not materialize.

Q. Do you think the public are fed up with gambling?—A. I think the public always have gambled, and I think they always will, but it will come in cycles.

By Mr. Lawson:

Q. As the relative market value of the stocks went down, these loans went proportionately down?—A. Yes, that is it.

By Mr. Power:

Q. I don't want to repeat this, but there seems to be some discrepancy between the argument adduced here this afternoon by the other witness, that you started warning people in 1927; your warnings were not worth very much?—A. Well, there was no question they had enough of them.

Q. They had?—A. I don't think there is any question about that; they must have, because the public were just in the frame of mind to buy anything. If we hadn't put the dampers on, I don't know where we would have gone.

Q. I am not debating it. I am trying to see whether we cannot agree on the fact that the banks, not through their own fault, were obliged in order to keep their clientele, to advance money on speculative securities during this boom time? I am not blaming you a bit for it at all. When I made money on the stock market, I didn't thank you, and when I lose money on the stock market I am not going to damn you, and everybody else should take the same attitude. But is there any doubt about it that you continued to advance money for stock market speculation?—A. You mean—?

Q. During the height of the boom—A. In other words, the banks continued to make some loans for stock during that period; yes, of course.

Q. I won't argue with you; the figures are there?—A. Well, we did. I don't beat around the bush about it; we did, but we didn't let them run wild, as the tendency was. If we had, dear knows where we would have landed.

Q. If you hadn't put the blocks to that, so to speak, loans might have run up to $500,000,000?—A. That is quite true, perhaps.

Q. So, to that extent, the public of Canada should be grateful to you?—A. And in addition to this you must bear in mind, also, there are government securities and municipal securities included probably in some of these columns.

Q. Municipal securities?—A. All these call loans, they are not all against stocks. Many of these loans are against bonds.

Q. You say they are against bonds?—A. Call loans against bonds. You cannot distingush between the two of them.

Q. These men who had really good securities, such as bonds, must have been forced to sell them in 1931, 1932 and 1933, because your call loans decreased enormously?—A. They might have, or might not have.

Q. That seems to be a logical conclusion from you first statement?—A. I don't think there is any question but that there was a tremendous liquidation in 1929, but it is not on the banks forcing it. It was voluntary. The big percentage of liquidation was voluntary. I know one important house, in Toronto, with loans of several millions. They had everyone of their clients out before the crash of 1929, and they had no call loans whatever. They were not carrying any call loans when the trouble came. That was going on all over.

[Mr. S. H. Logan]

Q. I don't want to delay you too long; it won't take me a minute—what about commercial loans now. Certain loans sunk voluntarily you said approximately $50,000,000. Have you any idea how much commercial liquidation was forced by the banks?—A. There would be very little.

Q. You say there would be very little?—A. Here is my own statement about what happened in my commercial loans in 1929 to 1934. There was a liquidation there of $160,000,000. We did not force the $160,000,000. It came about through a natural process. I have no doubt there were some cases where there was liquidation forced, but, in the long run, a lot of that liquidation was done by the customers themselves. Then we have to bear in mind the values, as of February, 1934, in comparison with the values, as of 1929.

Q. Inventory values?—A. Inventory values, taking that much less money to do business.

Q. Were there any instructions given, in 1927, and 1928, with respect to commercial loans, instructions to managers to call in their commercial loans?—A. No. At no time were we not fully prepared to loan any commercial account, so long as the company was in good standing and there was justification for us loaning the money. I think that is one feature you want to bear in mind, that notwithstanding this speculation, at no time were the banks in this country not prepared to loan their commercial customers, if there was justification for making such loans.

Q. Of course, that is always taking into consideration the fact that the inventories of your clients had materially decreased and so you had to call upon them for more margin; they put up more collateral, or put up life insurance policies or, if they were in joint stock companies, get personal guarantees, or guarantees of their own property, and so on?—A. You are talking largely about section 88 loans. We usually have a wide margin on such loans.

Q. Yes, section 88 loans?—A. Section 88 security on goods and accounts receivable; you see, if a customer runs his business well, there is a pretty wide margin there, that would provide for any ordinary deflation.

Q. But the margin was not sufficient to deal with this depression, was it?—A. In very, very few cases—I asked our men, just before I left, how many organizations, important organizations, did you need to liquidate during the whole of this depression—and there are very few. In the cases where they were liquidated, it was largely their own fault.

Q. Yes, I quite grant you that, in many cases, you found that there was bad management and that probably that bad management was not so evident prior to the crash?—A. That is always bound to be.

Q. But, after the depression came on, you noticed the management was bad, so you had to squeeze, those people?—A. But we had very few accounts that we had to liquidate. I am talking about commercial accounts.

Q. I had this statement made to me, in a letter, the other day, referring to a large loan carried by another bank, a loan which practically amounts to a frozen loan, a pulp and paper loan, and it amounts to say $10,000,000; the statement made to me was that 10,000 small borrowers of $1,000 had to be called upon in order to support that $10,000,000 loan. May I get the "low-down" on that story?—A. I would say that is all bunkum.

Q. What is that?—A. I would say that is not the case, that ten small borrowers—

Q. Ten thousand borrowers of $1,000 had to be called on by this bank to support the $10,000,000 which was frozen?—A. I do not believe that there is any bank in Canada that would call loans to a lot of small men so as to be able to carry a great big account. I can not swallow that statement.

Q. You don't think there is any truth, or vestige of truth, in that statement?—A . I don't believe there is any bank that would do it.

[Mr. S. H. Logan]

Q. Thank you very much.

The CHAIRMAN: Who is next?

By Mr. Lawson:

Q. I would ask Mr. Logan if ordinarily the rate of interest on call loans is lesser, or greater, than the rate of interest on commercial loans?—A. The rate of interest on call loans should be a half to one per cent higher.

Q. A half to one per cent higher?—A. Yes, a half to one per cent higher.

Q. Higher?—A. Than the ordinary commercial loans. If a man gets a loan for speculative purposes, he should pay a higher rate for it than a man who is carrying on an ordinary commercial business.

Q. Yes, well then I misinterpreted your first answer. The rate for call money for speculative purposes is higher than the rate for ordinary commercial purposes?—A. It should be one-half to one per cent higher.

Q. And then, in 1929, there was such an extraordinary high rate for call money, out of all relation to the rate for commercial loans; that was because of the speculation which was prevalent at that time?—A. Yes, but the very high rate for call money was in New York.

Q. Right?—A. Not in Canada.

Q. Quite so?—A. We raised rates in Canada and justifiably so; we raised it to 7 and 7½.

Q. I see. The extraordinarily high rate for call money in New York was because of the demand for money, including credit in the term money, by reason of the speculative field?—A. Absolutely.

Q. And that attractive rate attracted foreign money to New York through your bank for loan purposes?—A. That is correct.

Q. And in respect to these transactions, I presume your bank, being an agent, had no control over the purposes for which that money was to be loaned? —A. That money was sent to us to be put out on the street, and earn as much as it could earn.

Q. Yes. Then, Mr. Logan, you outlined to Mr. Power that for the purpose of advancing speculative operations there was available, first, the money which the bank might loan on call-loans on security; second, the foreign money which came into the country; and I think you mentioned a third source, private corporations?—A. Private corporations are always an important factor in putting money out to work, both in Canada and in the U.S.A.

Q. It occurred to me, Mr. Logan, that there was another very responsible group for advancing credit for speculative operations which you did not mention; namely, brokers short-selling operations?—A. Well, I don't know. We have not seen any great evidence of any such short-selling in Canada.

Q. Would broker's short-selling operations in turn not make available to the broker a larger amount of credit which he could extend to his customers, for the purposes of marginal accounts?—A. We have seen no evidence of that.

Q. I see?—A. Not to be of sufficient importance that it would be a factor in the money market.

Q. But the point I wanted to come to, ultimately, was that of all these sources available for advancing speculative operations, the only source which the banks could control, on their loan rate, was the amount of money which the banks in Canada loaned on security by way of call loans?—A. In Canada.

Q. In Canada?—A. That is right.

By Mr. Bothwell:

Q. I suppose you call a farm loan, a loan to a farmer, a commercial loan?—A. Usually we classify them separately, farmers and commercial.

[Mr. S. H. Logan]

Q. You classify them separately?—A. We classify them separately, just because we want to keep track of them.

Q. Would it be possible to get the figures for farm loans over a period of years, the same as we had for call loans?—A. We had loans to farmers at the end of 1929, $32,200,000; we had loaned to farmers on the 28th day of February, 1934, $20,000,000. We have 22,000 borrowing farmers, between Winnipeg and Calgary.

Q. What was the amount in 1929?—A. 1929, $32,200,000 for the whole of Canada.

By Mr. Irvine:

Q. That is, your bank alone?—A. That is my bank alone.

Q. These figures apply to western Canada?—A. No, that is for the whole of Canada.

Q. Have you any idea of the amount in western Canada?—A. No, this is a classification of all the loans in Canada.

By Mr. Vallance:

Q. The point has been raised, Mr. Logan, that during the past few years it has been the policy of all the banks, with farm loans, to take every item of security that the farmer could give, I think; and then refuse to make a loan to help him finance his farming operations—can you say anything as to that charge?—A. I think you have to take that with a grain of salt. What you have to bear in mind, in the first place, is what Mr. Dodds spoke about this afternoon, about these various prior liens, where the government and others come in ahead of the claim of the banks; then you have to bear in mind, also, that a great many of the farmers have obligations in many directions. Now then, if we are going to carry the farmer and look after him; if we are going to put up the money we have got to see that the implement company is not going to eat it up, or anybody else eat it up; then we should know where it is going—if we carry the farmer along we should be in a preferred position. Now, I know the idea is that the banks are not loaning to farmers. Before I left Toronto I wired out to our western superintendents asking to how many farmers we had loaned last year. We loaned 10,000 farmers, in the prairie provinces, last year.

Q. New loans, Mr. Logan?—A. New loans.

Q. To what would they amount?—A. They would be about $150 apiece, or somewhere in that vicinity.

Q. I would like to ask another question arising out of these charges that have been made. Farmers complain that they have not been able to get loans, in recent years, to carry on their ordinary necessary farming operations although, in past years, they had a substantial line of credit. Now, have there been any instructions from the head office of the bank to the branch managers to restrict loans to farmers?—A. We have had to watch farm loans, and other loans, naturally more carefully during this period, which is a period such as no one has seen in a life-time, much more carefully than we have had at any other time. If a farmer is in good standing, if he is not loaded up with debt, then that farmer will not have any difficulty whatever in borrowing for his ordinary requirements. If, on the other hand, that farmer is loaded with debt—as many of them are—he will have to work out his salvation the same as you, or I, or anybody else, will. I do not know what the solution is, especially where he has debt on all sides.

Q. Well, am I to take it from that, that the policy of the bank still is to loan money to the farmers in order to carry out the ordinary operations, so

long as that money is not going out for the benefit of some machine company, or other creditor?—A. Absolutely, so long as we know that we are protected and we will get the money back.

By Mr. MacMillan:

Q. Have you any detail showing the experience of the banks in regard to farm loans, I mean to say the experience so far as the ordinary loan is concerned; you make loans to farmers and to business people, you make them for certain purposes?—A. Ordinarily those loans to farmers are made in the spring, with the idea of getting the money back in the fall. That is what we expect in the province of Ontario.

Q. Have you any table showing how many farm loans are not paid at the time of maturity, that is, farmer loans as compared with other loans?—A. A great many of the western loans are over due, but we are still carrying them along.

Q. Then they do not liquidate as rapidly as the others?—A. No, because, in a great many cases, they went in too deep, had too many obligations in other directions.

By Mr. Fraser (Cariboo):

Q. Mr. Logan, somebody spoke here to-day about frozen loans, and I would like to ask you this question: How do your frozen loans, that is, commercial frozen loans compare with your stock market frozen loans; in which of those two classes have you the most frozen loans; have you any way of telling that?—A. No, I am afraid I have not.

Q. Well, let me ask you another question: You have answered questions now about stock market loans and farm loans; what about commercial loans, what is the total amount of your commercial loans, 1929, compared with 1934? Before you start, have you those commercial loans divided into classes?—A. I have. Let us take food products, we had loaned $78,000,000 in 1929, compared with $42,000,000 loaned, at end of February, 1934. That can be subdivided, I think, into bakeries, $1,214,000, in 1929, as against $2,000,000, now.

By Mr. Irvine:

Q. Is this for 1929?—A. 1929, in comparison with 1934. Fish, including packers and dealers in a large way, $2,300,000, in 1929; $600,000 now; flour millers and flour exporters $11,000,000, in 1929; $4,900,000, now; fruit and vegetable canners and fruit exporters $1,300,000, in 1929; $1,100,000, now; grain dealers, grain exporters and seed merchants, $56,000,000, in 1929; $32,000,000, now; meat and meat packers $4,300,000, in 1929; $581,000, now. Lumber, $13,100,000, in 1929; $6,300,000, now. Manufacturers, $41,200,000, in 1929; $20,500,000, now. That is sub-divided as follows: Agricultural implements, $2,800,000, in 1929; $3,900,000, now; automobiles, $1,191,000, in 1929; $447,000, now; automobile dealers and agents, $3,270,000, in 1929; $1,200,000, now; brewers and distillers, $3,371,000, in 1929; $1,900,000, now; builders' supplies $1,400,000, in 1929; $465,000, now; furniture, $2,300,000, in 1929; $1,149,000, now; iron, steel and metal products of all kinds $11,550,000 in 1929; $5,200,000, now; mining $2,800,000, in 1929; $683,000, now; rubber and rubber goods, $1,138,000, in 1929; $268,000, now; textiles, cotton, silk, woollens, wearing apparel, etc. $8,500,000, in 1929; $4,000,000 now; tobacco, cigars and cigarettes, $716,000, in 1929; $547,000, now; oil refineries, $1,375,000, in 1929; $567,000, now. Contractors, builders and dealers in builders supplies, $7,800,000, in 1929; $3,300,000, now. Loans to customers for building purposes $6,000,000, in 1929; now, $4,000,000. Wholesalers and retailers of all kinds, that is, throughout the country, importers and exporters and everything in that

[Mr. S. H. Logan]

line, $29,600,000, in 1929; and $13,000,000 now. Public utilities, $6,000,000, in 1929; now; $17,700,000. Shipping, $1,200,000, in 1929; now $875,000. Financial $17,600,000, in 1929; now $3,000,000; that is sub-divided as follows: Finance companies, $12,000,000, in 1929; now, $602,000; banks and bankers, $123,000, in 1929; now, $4,000; trust companies, mortgage companies and insurance companies, $5,400,000, in 1929; now, $2,474,000. Loans against stocks and bonds, in 1929, were $89,000,000; in comparison with $47,000,000, at the present time; to brokers and bond dealers $55,000,000, in 1929, now $30,000,000. That is the usual statement you see in the call returns, loans to brokers. Sundry loans on stocks in November, 1929, were $34,000,000; now $17,000,000. Loans to private individuals and sundry traders, $22,000,000, in 1929; now $15,000,000. Governments, etc., $42,000,000, in 1929; now, $39,000,000. Trade bills discounted and sterling and foreign bills of exchange purchased, $21,000,000, in 1929; now $9,000,000. I think that classification goes pretty well through the list of our borrowers.

By Mr. Bothwell:

Q. Just as a matter of record, Mr. Logan, would you mind putting in the farm loans from 1927 on?—A. It is extremely difficult to supply that information. I do not believe I could.

Q. Well, you were able to give that to us for 1929.—A. Yes, but we started away back a number of years ago getting out these classifications for ourselves, and then periodically we get the branches to send us in this information. We can do that only when we ask for it as a special return.

By Mr. Coote:

Q. Mr. Logan, I think in your initial statement you said that farm prices had dropped perhaps more than anything else, and I wanted to ask you, if, in your opinion, men who have been depending largely upon the production of wheat and cattle , which I personally think they have sold at less than cost for perhaps three years, can afford to pay 7 per cent, or perhaps 8 per cent, on these loans which in many cases I know are past due?—A. They can afford to pay it. The cost of money in the budget of a commercial man or a farmer is a relatively small item; I think it is always magnified. Take the farmer who borrows $500 or $1,000 for the year at 7 per cent, now then, whether he pays 6 per cent or 7 per cent the actual difference to that farmer for a year is $10. That $10 is not the difference between success and failure. Take the commercial man who borrows $100,000, he turns his goods over four times a year we will assume, that means $400,000. Now, whether he pays 1 per cent or more on a loan of that magnitude with the turn over of that money, it is less than 25 cents per one hundred dollars on each one hundred dollars worth of goods.

Q. Well, if a man owes $5,000 the difference of 2 per cent on his year's difference would amount to $100?—A. It counts up, there is no doubt about it.

Q. I would just like to bring to your attention—I don't know whether as general manager it would come to your attention—the case of a farmer in Alberta who had a loan of something over a thousand dollars; this would be a year ago, and that winter he was compelled to go into town, once a month, and renew that loan at 8 per cent and, of course, there was no possibility of that farmer paying that note until he got another crop. Is that a general banking practice, is it proper banking practice?—A. I would have told the bank manager "to go roll his hoop," if he did that to me. It is not decent treatment. I think if a case of that kind were placed before the superintendent of any bank he would not stand for it for a minute.

Q. If the matter were brought to your attention you think it would have been remedied?—A. Absolutely. I would have gone right after that manager.

[Mr. S. H. Logan]

Q. I suppose your earnings have been cut considerably in your interest account?—A. They certainly have; "the skids have gone from under."

Q. Well, would that be the reason for a custom which is becoming very general in the banks of insisting on a charge of so much for every cheque that goes through a customer's account, unless he carries a minimum monthly balance of perhaps $300?—A. He is entitled to pay a service charge. I will tell you one thing which everybody seems to forget; They say the bank's money costs 2 per cent or $2\frac{1}{2}$ per cent. The bank's money does not cost $2\frac{1}{2}$ per cent; it costs more like $4\frac{1}{2}$ per cent.

Q. Is that a practice in all your branches?—A. I am talking now about the cost of money, you are talking about a service charge.

Q. Yes, I am talking about a service charge?—A. If we have a service charge, there must be a reason for it, I mean where there are a lot of cheques and the account is not profitable.

Q. In many cases, I believe, they insist on a minimum charge of $2.50 per month, did you know that?—A. No, I cannot say about that. I think that depends on whether we do the fellow's bookkeeping or whether he does it himself. If we have to keep the books, and supply the stationery, then there is a justification for some reasonable charge.

Q. Is it the general practice to charge to a customer, say 25 cents, for every cheque which he deposits for which there is not sufficient funds and it has to be charged back to his account?—A. Well, he should be charged, if he is not.

Q. When was that practice initiated?—A. I do not know that there is such a practice, but you say that he puts in a series of cheques which are never paid and they are charged back.

Q. I did not say anything like that. I said sometimes a man may deposit a cheque and afterwards it is found that there is not sufficient funds to meet that cheque and it is charged back to his account and there is a charge made against his account, a debit slip put in for 25 cents and I would like to know whether that is the general practice?—A. I would like to know if that cheque was sent out of town. If it were an out of town cheque there might be some justification for it. that is, if it were a cheque received in Toronto, from Ottawa, and had to be sent back to Ottawa.

Q. One man has sent to me some information—and I regret that he does not give me the privilege of using his name but I have the vouchers in my possession, they are from The Bank of Commerce and there are a lot of them—and 25 cents is the charge to his account, whenever there has been a cheque deposited for which there were not sufficient funds?—A. Where does he live? Was it an out of town cheque? Was it drawn on a bank in a big city? Was it a city where there were a whole lot of branch banks?

Q. Not very many branch banks. It is in Nova Scotia, and I am trying to find out whether that is a general practice of the bank and whether you think it is really justified.

The CHAIRMAN: I must say to you, Mr. Coote, that I never heard of it, in my career.

The WITNESS: Unless it is a local clearing house charge, I cannot understand it. If you will give me a memorandum of where it was, I will follow it up.

Q. I wish you would look into that matter, Mr. Logan.—A. Well, if you will give me a memorandum of where it is, I will follow it through and look into it. It may be an isolated branch.

Q. Then I have had this complaint made to me, Mr. Logan, that people have had forms presented to them to sign, when they opened an account, and there is quite a lot of material printed on that form and they are told that that is just the ordinary form which every person must sign, and afterwards they find out that in that form there is authorization to the bank to charge them

so much for every cheque that goes through the account; does your bank use such a form?—A. There is a form, an agreement, but the banker should explain to a customer what he is signing.

Mr. SPENCER: I have one of the forms here.

The WITNESS: I wish you would let me see it.

By Mr. Coote:

Q. I was wondering whether you would object to filing—just for the information of the committee—the forms of that nature that are used?—A. There are waivers of protest, and such things.

Q. Are these forms printed at head office and sent to the branches, Mr. Logan?—A. That I cannot tell you.

Q. I would like to go back to the matter of interest charges, for a moment, and I would like to ask you, as the manager of a big financial institution, in the case of farmers who have been unable to meet their obligations—in view of the fact that they have not been getting enough out of their crop or out of the sale of their stock during the past few years—whether it would not be good business, on the part of the financial institutions, to agree to reduce that rate of interest down to 5 per cent? I am not fixing a certain rate, but would not that be good business?—A. We have reduced the rate, as you know, from 8 to 7. If we made any sort of a general reduction from 7 to 5 then everybody would want a similar reduction, and there is no question about it, it would cost us a lot of money. I think that is a matter of negotiation with each individual customer. If he is in difficulty, and he cannot get out of the hole, the banks do not want to push him off the land, they want to see him through, but, if he can pay, they expect him to pay.

Q. I heard recently of a grain company in Winnipeg that could not borrow from the banks there at less than 6 per cent for their grain carrying account and they went to New York and borrowed the money at something between 3 per cent and 4 per cent?—A. That is correct.

Q. And I was wondering whether it would not be good business for the Canadian banks to reduce the charge for carrying this grain account down to where the interest charge would begin to correspond to the price of wheat and hold that business in Canada?—A. Let us get down to brass tacks. We have got $400,000,000 in deposits that cost us on the average 2 per cent. In addition to that we have a payroll of over 5,000 people, say $7,500,000, and we have, in addition to that, $1,800,000 in taxes a year, and many other things, and when you capitalize it all that money does not cost us 2 per cent, it costs us 4½ per cent. How can we provide for bad debts, etc., when our money costs us 4½ per cent and lend it to some grain men for 3 per cent? We can do it only by going "bust."

Q. You would be loaning just that much more, would you not?—A. Oh, no. The more we lent the more we would lose.

By Mr. Sanderson:

Q. Mr. Logan, I would like to ask a question: Is it not a fact that your bank has a large call loan business in New York?—A. We do ordinarily. There is no call loan business in New York, now, to amount to a hill of beans.

Q. But going back three or four years ago?—A. Oh, then it was tremendous.

Q. If my recollection is right, I think that Mr. Dodds stated that the Bank of Montreal never lost a dollar, on call loans, in New York. Is that the experience of your bank?—A. I would say absolutely the same experience.

Q. Well then, you would not say that of call loans in Canada?—A. Our loss on call loans in Canada is insignificant.

Q. Do you mean insignificant now or going back four or five years ago?—A. It always has been insignificant. Our losses on call loans are insignificant.

Q. But you have had some losses?—A. Very small; the percentage is very small.

[Mr. S. H. Logan]

By Mr. Perley (Qu'Appelle):

Q. I understand your loans in Canada amount to something over $600,000,000?—A. The total loans in Canada or ours?

Q. No, the total loans of all the banks—A. Oh yes, the total loans of all the banks are about $1,150,000,000.

Q. Your total loans are?—A. Our total loans in Canada are $245,000,000 roughly.

Q. And your total loans to the farmers?—A. Our total loans to the farmers, at that same date, amount to $20,027,000.

Q. That is, the agriculturists who are producing more new wealth than any other industry in Canada have a very small proportion of the total loans?—A. Oh, no, the farmer, if you follow this statement when you get it, is getting proportionately as much as most other industries, especially when you include food and dairy products and things like that. Our total loans in that direction are $61,000,000.

Q. That is separate from this $20,000,000?—A. I think you will have to see this statement in order to arrive at just how it is made up.

By Mr. Fraser (Cariboo):

Q. Is that to be printed in the record?—A. Yes, I understand it is being printed in the record.

By Mr. Perley:

Q. I think one of the main complaints of the farmer in the west is that, up to 1928, generally the farmer had a line of credit that was practically considered on the moral risk. It was not general that he gave any security to the bank. The bank took a statement each fall and on that statement they issued his line of credit. When the depression period came on the banks started to take security. Say a farmer had a half section clear and his chattels clear. Previous to that depression he had been given a loan each year, but now, to secure that loan, they have taken the security and when they get that they have discontinued giving him any further loan and he is handicapped, if he cannot carry on in the usual way?—A. I do not think that is correct, unless he were so tied up with debt that the bank felt they could not get their money back. I think every bank in this country is tremendously tied up with loans to farmers.

Q. There is no doubt about that, but remember that 45 per cent of the farmers in Saskatchewan have no mortgages, and it is claimed that these men have to go to the municipalities to get certain guarantees of their accounts to buy gasoline and repairs.

The CHAIRMAN: What about your legislation out there, Mr. Perley?

Mr. PERLEY: I think the legislation complained of has come only within the last two years. They always had liens, thresher liens and seed grain liens.

Mr. COOTE: I asked the question this afternoon whether in Alberta there is not a prior lien for binder twine and I was told it was a matter of law. If the bank is going to complain of that they should tell us what these liens are.

The CHAIRMAN: Of course the legislation will speak for itself.

By Mr. Duff:

Q. You told us the loans to individual farmers amounted to $20,000,000. Is that for your own bank or for all banks?—A. Just for my own bank.

Q. Could you sub-divide that and tell us how much of that is loaned to farmers in the Maritime Provinces?—A. It is not divided according to provinces.

Q. Am I right in saying that a very, very small percentage is loaned to farmers in the Maritime Provinces?—A. I would say a relatively small percentage of that is loaned east of Winnipeg. We have no big loans in Ontario, or Quebec, or the maritime provinces.

[Mr. S. H. Logan]

Q. Would it be more than 1 per cent in the Maritime Provinces?—A. It would be more than that, but I would not hazard a guess.

Q. Well, how much is loaned to fishermen in the Maritime Provinces, I mean the actual fishermen, not men like myself; I would not like you to tell how much I have borrowed?—A. I think the fisherman gets his supplies from the supply house.

Q. Well now, in addition to the $20,000,000 which you have loaned to farmers, in your brief I think you made the statement that, in 1930, there were some 230,000,000 bushels of wheat that had to be financed, is that right?—A. I was just making an estimate, that that would be the carry over at the end of the season.

Q. Very well, take the carry over, that will suit my purpose fine.—A. As I said, take the Canadian visible supply, in January, 1929, we will assume it was 230,000,000 bushels. I think it is a conservative estimate to say that at least two-thirds of it is carried by loans from the Canadian banks.

Q. And did you say that the loans amounted that year to $168,000,000? —A. That would mean in January, 1929, 150,000,000 bushels of wheat were being financed in that way. The average price, in 1929, was $1.12. Wheat has since fallen to 59 cents, therefore to carry 150,000,000 bushels of wheat, in 1929, would take $168,000,000, but in 1934 only $88,000,000 is necessary to carry the same number of bushels.

Q. Very good. So in that year the banks advanced for the purpose of carrying wheat $168,000,000?—A. Well, that would be about the amount necessary to carry 150,000,000 bushels.

Q. Mr. Logan, what securities did the banks have for that large sum of money, namely, $168,000,000?—A. We had section 88 of the Bank Act, and Terminal Elevator receipts.

Q. Yes, what else?—A. That was the main security.

Q. What about the guarantees?—A. You ask about the security?

Q. Yes?—A. You have your borrowing customer; you have whatever his financial responsibility may be.

Q. Yes?—A. And you have your grain, so that you can control it; you have a margin, and you have it hedged.

Q. But, in addition to that, do you not have guarantees by somebody?—A. Well, if it is a joint stock company you would have a guarantee for a reasonable amount. In some cases we do, but not always.

Q. Do you not have guarantees from Provincial governments in some instances?—A. You are coming back now to the wheat pool question.

Q. I beg your pardon?—A. You are coming back to the wheat pool, to specific cases.

Q. You said in order to carry that 230,000,000 bushels of wheat the banks advanced $168,000,000?—A. Hold on now. I said there probably would be that amount of wheat, and I mentioned that two-thirds of that amount, namely, 150,000,000 bushels of wheat, in 1929, as taking so much, and that it took so much less to finance the same quantity of wheat in 1934.

Q. What I am asking you now is, in addition to section 88 of the Bank Act, whether you had as security the note of the company carrying that wheat; what other security did you have?—A. Are you referring to the wheat pools? Of course, the wheat pools were in an entirely different position from the others, because they were not hedged.

Q. What position were they in?—A. The wheat pools made an initial payment; they carried the hedges themselves. Now then, when the market began to fall away, if it fell below what the initial payment was, and there was no margin left, the banks would be just out of luck.

[Mr. S. H. Logan]

Q. But were the banks out of luck, or did they have other security?—A. They had only the security of the assets of the wheat pools up to the time when the Provincial governments came in and gave a guarantee.

Q. What kind of guarantee did the Provincial governments give, in 1930, 1931, 1932 and 1933?—A. I cannot give you that exactly because that was all closed out. That, I think, was all closed out, in 1929.

Q. I thought they were not cleaned out till 1930?—A. No, I think in 1929 they were pretty well cleaned up.

Q. There was no guarantee by Provincial governments in 1929 and 1930, is that what you say?—A. Well, I am not positive of that.

Mr. VALLANCE: In 1929 the Provincial governments first of all guaranteed the pools, and then the Federal government stepped in, in November, 1930.

The CHAIRMAN: Mr. Duff, let us not wander too far into this wheat pool business.

Mr. BOTHWELL: I think we might as well clear that matter up in order to get the correct date. The Act was passed in January, or February, 1930, by the Provincial governments.

The CHAIRMAN: No doubt about the facts.

Mr. DUFF: Mr. Logan, in his brief, told us the quantity of wheat, the average quantity of wheat and what money the banks advanced. Now I am asking Mr. Logan what security the banks had for advancing $168,000,000?

The CHAIRMAN: He told you.

Mr. DUFF: No, he did not tell me.

The WITNESS: We had the security of the borrowing customer; we had the grain, either in terminal warehouse receipts, or under section 88; we would have that grain hedged and we would have a margin.

By Mr. Duff:

Q. You had no security, do I understand you to say, from the Provincial governments?—A. Now, hold on, you asked me what security we ordinarily hold for wheat loans—I am bringing out what it would cost to finance any 150,000,000 bushels of wheat in 1929, in comparison with 1934.

Q. That is quite right?—A. I was not mentioning any particular holding; I was speaking generally of wheat loans.

Q. Quite right, but you opened the question in your brief, and that is the reason I have for bringing it up now, Mr. Chairman. Mr. Logan, in his brief, mentioned the fact that there was a certain quantity of wheat on which the banks loaned a certain volume of money. Now, I say, as a member of parliament and a citizen of this country—and as a borrower from the banks if you will—I want to know what security the banks had for the loaning of that money, or any other monies to the wheat pool or to anybody else in connection with that wheat. I will ask Mr. Logan, did they have in addition to what you said a moment ago, the security or guarantee of the governments?—A. They did.

Q. They did?—A. Up to, I think, the end of 1929.

Q. Did you also, at any time, have the guarantee of the federal government?—A. We had the guarantee of the federal government for the season 1931-1932.

Q. To what extent?

The CHAIRMAN: The committee has already, on another occasion decided you cannot answer.

Mr. DUFF: Not at all.

[Mr. S. H. Logan]

The CHAIRMAN: I am in the judgment of the committee.

Mr. DUFF: Not at all, this thing is opened on the fact—

The CHAIRMAN: I do not care what it is opened on; I just point out that the committee has already decided this question.

Mr. DUFF: It is not what you care; you are the chairman of this committee, and I have the right to ask this question.

The CHAIRMAN: I have had the painful duty of ruling—

Mr. DUFF: You said at the last meeting you were in the hands of the committee; that you did not have the painful duty of ruling, you refused to rule.

The CHAIRMAN: But the committee did rule, and we tried to follow that out, and we will do so.

Mr. DUFF: Well, Mr. Chairman, I am making a statement that it is in the interests of this country that this situation should be known.

An hon. MEMBER: That is what Lapointe said.

Mr. DUFF: I don't care who said it, I am saying it, the people should know how much the Dominion government guaranteed the banks of this country to carry the wheat of the western provinces. The reason I want to know is in the interests of the Maritime provinces, where we don't get any credit on any of our fish, lumber or anything else; and it is about time the rest of the people knew how much this government guaranteed to the western provinces in wheat.

Mr. IRVINE: Is that argument, or a question?

Mr. DUFF: I am going to ask the question.

The CHAIRMAN: I will have to rule the question out, in view of the prior decision of the committee; it is up to you to appeal from that ruling if you want.

Mr. DUFF: I am going to appeal for it; I say I have a perfect right to have an anwer to that question.

By Mr. Vallance:

Q. On the point of order: Mr. Logan, you gave the figures as to the amount of money necessary, on a given date, to finance a certain amount of wheat, compared to 1934; let me ask you this question, when wheat starts to move in the fall, what takes place, as far as the bank is concerned? Let me put it this way; if a company in the grain business buy a thousand, or ten thousand, bushels of wheat at their elevators in the country, to-morrow they sell an option to cover the purchase; the bank demand that, don't they?—A. Yes, they hedge.

Q. And it takes a certain amount of money to buy the futures of the amount that they bought from the farmer the day previous?—A. They buy wheat from the farmer.

Q. Sure they do, and it takes that much money to cover it; and to protect the bank you say they must sell them the next day, or option; that is the reason you say in 1929 when wheat was $1.12 it took $168,000,000 to handle that amount of wheat; in 1934, because of the fact that wheat got down to 59 cents, it took $88,500,000?—A. That is correct.

Q. Now then, Mr. Logan, I want to ask you a question; if Mr. Duff will excuse me for taking more of his time.

Mr. DUFF: I wonder if we had not better decide one thing at a time.

Mr. VALLANCE: We are dealing with the wheat question, if you will let me ask this question.

Mr. DUFF: Don't ask too many.

[Mr. S. H. Logan]

By Mr. Vallance:

Q. Mr. Logan, you gave some figures here to-night of the amount of money that was loaned by the bank for specific purposes. You said there was a certain amount of money loaned for wheat, at a given date, and then you come down to 1934 and give the amount that was used, or was against wheat in 1934, and the question I want to ask is this; when is wheat in condition that the bank will advance money on it; in what position must wheat be before the bank will advance money on it?—A. As soon as wheat is delivered at the country elevator.

Q. You will not advance money on it in the granary, or in the bin, belonging to the farmer?—A. I do not think we are ever asked to do that to any extent.

Q. Oh yes, you are?—A. You mean on wheat, in the farmer's possession.

Q. Yes?—A. Yes, when I look back at it, we have loaned farmers against wheat under section 88.

Q. You are right; under section 88 the bank lends money to the farmer on wheat lying in his bin?—A. That is correct, but I do not think farmer's loans in that connection have ever been very big.

Q. Do I understand now that the farmer may borrow money on wheat held at the farm?—A. The bank may lend the farmer the money with the security of the threshed grain on the farm.

Q. Grain on the farm—what position must it be in?

The CHAIRMAN: It must be capable of identification.

By Mr. Vallance:

Q. Now, Mr. Logan, as a practical farmer I have never been able to go into your bank, The Bank of Commerce, and borrow money, unless I had a storage or elevator ticket. Now, the reason why I ask this is that I want to use this in an argument, or in evidence, against certain legislation that is proposed to be brought down; that I cannot borrow money, or get advances on wheat, until it is either in the local elevator, in transit, or at the head of the lakes.

The CHAIRMAN: The authority is there now.

The WITNESS: The authority is there—in the Bank Act.

Mr. VALLANCE: I want to know, as security to the bank, just when wheat is negotiable.

Mr. DUFF: That is not a point of order raised by Mr. Vallance to be decided; I suggest that we get back to my question.

The CHAIRMAN: Mr. Duff has asked a certain question. I have ruled it out of order, for reasons already stated, and he has appealed from the ruling. The question is now, "Shall the ruling of the Chair be sustained?" Those in favour, please say Yea. Now, those opposed, please say, Nay.

In my opinion the Yeas have it.

Mr. DUFF: Well now, perhaps I might ask Mr. Logan another question, in view of the fact that you, sir, as Chairman, have ruled against my question asking what amount of money the Dominion of Canada—not this government—guaranteed to banks for loans on wheat; I ask Mr. Logan if it is not a fact that, in 1933, the guarantee by the Dominion Government was over $100,000,000?

The CHAIRMAN: Mr. Duff, do you think you had better pursue that line of questioning?

Mr. DUFF: Yes, I am going to pursue it as long as I can, Mr. Chairman.

The CHAIRMAN: I have to rule this out of order.

Mr. DUFF: Why?

The CHAIRMAN: In the first place it is not within the purview of the inquiry.

Mr. DUFF: Oh yes, it is.

The CHAIRMAN: I beg your pardon, it is not. We are presently concerned only with section 2 of the Power resolution.

Mr. DUFF: "The general policies adopted by the chartered banks to combat the effects of the depression, and to what extent the said banks are responsible for the drastic deflation from which the country suffered and is still suffering."

The CHAIRMAN: Mr. Duff, may I ask you this question; Is it your object to get indirectly what the committee has already ruled you cannot get directly?

Mr. DUFF: Even if that is true, there is no reason why I should not ask the question and why I am not entitled to an answer. I say that we are asking the banks for certain information before we pass certain clauses of the Bank Act. I am therefore entitled to ask how much money the Dominion government guaranteed the banks with regard to wheat, and my reason for asking it is, I want to make a comparison with how much money the Dominion government or the provincial government guaranteed other industries. I think I am entitled to that.

The CHAIRMAN: Of course, if you are entitled to ask that question for 1931, you are entitled to ask it for 1932, 1933, and 1934. Therefore I suggest to you, sir, that you are asking indirectly what the committee have already decided you cannot ask directly.

Mr. DUFF: No, I am not.

The CHAIRMAN: That is my view.

Mr. DUFF: I cannot understand Mr. Chairman, why this thing should be hidden under a bushel; why it should not come out into the light. What is there to be ashamed of?

The CHAIRMAN: I do not know anything to be ashamed of.

Hon. Mr. MACKENZIE: It is hiding under bushels of wheat.

Mr. DUFF: Cannot you see the pun I am trying to make? Did the amount exceed over $100,000,000?

The CHAIRMAN: I shall have to rule that out of order, I am sorry, if you persist.

Mr. DUFF: I think you would be sorry, because I think it is most unfair to the people of this country, that this question should not be asked.

The CHAIRMAN: There is no reason why it should not be discussed in the House, but not here.

Mr. DUFF: It will be discussed in the House, but it should be discussed here in committee first. I am going to discuss it in the House, if I am there. Mr. Logan, may I ask you if there were any amounts guaranteed by the government which were advanced to any other industries in this country, outside of wheat?

The CHAIRMAN: I will answer that question.

Mr. DUFF: No.

The CHAIRMAN: I want to answer it.

Mr. DUFF: You are not a witness.

The CHAIRMAN: You say there was nothing done for the Maritime Provinces. What about the guarantee to the Dominion Iron, Steel and Coal Company?

Mr. HACKETT: Maritime freight rates.

Mr. DUFF: That was not a guarantee; that was a gift.

Mr. IRVINE: The C.P.R.

Mr. DUFF: I am opposed to it.

Mr. POWER: Maritime rights.

Mr. DUFF: I am talking about ordinary commercial business, Mr. Chairman. I should like to know how much money was guaranteed the banks in regard to loans to their customers in other businesses in the Maritime Provinces?

The CHAIRMAN: This was all tabled in sessional papers the other day.

Mr. DUFF: Yes. Like Mr. Power, I do not read sessional papers.

Hon. Mr. RHODES: You will get it all in the forthcoming budget, Mr. Duff.

Mr. DUFF: Mr. Chairman, I am kind of scared of the budget, it has been so bad for the last three years.

Hon. Mr. RHODES: I was not speaking of the budget as a whole; I am speaking of the government guarantees.

Mr. POWER: That is giving budget secrets in advance.

Mr. DUFF: Since I cannot get any information I think perhaps I am satisfied with the answers I did not get. You, Mr. Chairman, and others associated with you, must take the responsibility for not giving the public the information for which I asked.

The CHAIRMAN: The committee is sharing the responsibility.

Mr. LAWSON: All associated with you voted against it.

Mr. DUFF: Are you associated with me? Mr. Logan, can you as a business man, and banker, give the committee any idea as to—I see the Chairman cocking his ears; he is afraid I am going to ask an unfair question.

The CHAIRMAN: I always pay particular attention to what you say, Mr. Duff.

Mr. DUFF: Thank you. Mr. Logan, as a business man and banker, can you give the committee your views as to what caused the depression in this country and other countries?

Mr. MACKENZIE: You are going C.C.F.

Mr. POWER: Where is our senior counsel, he will give you information on that.

Mr. MACMILLAN (*Saskatoon*): Page Mr. Coote.

Mr. DUFF: I would not like to take Mr. Coote's view; I should like to have Mr. Logan's view.

Mr. LAWSON: I think that is beyond the scope of the inquiry.

The WITNESS: It is all covered in the first paragraph I read.

Mr. DUFF: Read it again.

The WITNESS: "This depression, as everyone knows, has not been merely a local calamity, but one which has affected the whole world. In Canada, one of the main causes of our economic difficulties was the rapid and continuous fall in the prices of those primary products which constitute so large a part of our exports."

Mr. DUFF: I thought you said something about high tariffs in there?

The WITNESS: "The prices of our primary products, however, are determined not in this country but in the world markets where they meet in competitive selling of other nations. No policy therefore could have been, or can be, adopted by Canadian banks which would help to raise these prices.

"The depression was further intensified for us by the fiscal policies of some countries formerly substantial importers of our produce. They, to protect their own domestic situation, imposed ever increasing tariffs which seriously restricted our flow of exports, and in some cases completely blocked the entry of certain of our commodities to their markets; for example, wheat to France and Italy, and lumber and cream to the United States."

The CHAIRMAN: That happened between 1928 and 1931?

Hon. Mr. MACKENZIE: Expunge that from the record.

Mr. DUFF: In regard to that part you just read where you said the depression is due in part to the fact that the exports of Canada cannot find a ready market in the countries of the world because of tariffs and restrictions—

The WITNESS: And low prices.

Q. And low prices. Is it not a fact that low prices are brought about by restrictions in trade and by high tariffs.

Mr. HACKETT: That is not what you said in the House. You said prices were raised by tariffs.

Mr. DUFF: Who did?

Mr. HACKETT: You did.

The CHAIRMAN: That has always been the theory.

Mr. DUFF: You do not know what I am getting at.

Mr. HACKETT: Nobody does.

Mr. DUFF: Is that so?

The CHAIRMAN: I think you are getting into deep water now.

By Mr. Duff:

Q. What do you say about that, Mr. Logan?—A. I think you have low prices in all commodities throughout the world.

Q. What is the cause for the low prices throughout the world?—A. It is a world situation; it is not local.

Q. I did not say it was a local situation—either a local situation or a Logan situation. Well, Mr. Logan, if you do not want to answer that question, I will ask you another. Is it not a fact that in view of the fact that we are an exporting country, since there are high tariffs on our exports and we have a high tariff in this country on imports, it is bound to have a depressing effect on trade.

The CHAIRMAN: Now, do you think you ought to ask this witness that?

Mr. DUFF: I do not see why not. He is a business man and a banker, and the bankers certainly suffer just as much from depression in trade as anybody else.

Mr. LAWSON: I thought we were inquiring into the relationship of the banks to the depression. Now, surely it cannot be suggested by any stretch of the imagination that a bank has anything to do with tariffs, high, low or otherwise.

Mr. DUFF: I did not say the banks had anything to do with tariffs. I am trying to find out from Mr. Logan, as a business man, and I think we all admit he is a very bright business man—he comes from Nova Scotia, and, of course, he could not be anything else—what I am trying to find out, sir, for the benefit not only of this committee but other members of parliament are his views as to what we should do to remedy this present situation.

The CHAIRMAN: I do not think Mr. Logan ought to be asked to give that.

Mr. DUFF: I wonder if it would not be better to ask Mr. Logan. If he does not want to answer, very well.

The CHAIRMAN: I think a certain duty devolves upon a chairman. I think all this is outside our order of business.

Mr. DUFF: I do not think it is. We are investigating the banking situation, and it seems to me that is a very important matter. I know a great many industries have suffered due to the fact that certain countries have put up tariffs and other countries have put them up and business has suffered.

The CHAIRMAN: A bank has nothing to do with that. That is a matter of governmental policy.

Mr. DUFF: Yes, but banks certainly appreciate what happens. They are the ones greatly concerned and suffer just as much as anybody else by these conditions; and I think, consequently, that I am perfectly justified in asking that question.

The CHAIRMAN: I would not think so.

Mr. DUFF: Of course, you are the chairman; you are the doctor.

The CHAIRMAN: Not altogether.

Mr. DUFF: You said you were one moment and the next moment you said you were not.

The CHAIRMAN: I will take the responsibility of ruling on this. On the wheat problem I asked the committee to share the burden, following the statement made by the Minister of Finance.

Mr. DUFF: The Minister of Finance did not make any statement I heard. I believe the Minister of Finance was quite willing to have the information given to the public.

The CHAIRMAN: So he was; but he said the committee would have to take the responsibility if any damage was done, and the committee declined to take that responsibility.

Mr. DUFF: What do you mean by damage being done?

The CHAIRMAN: I will refer you to Mr. Vallance. He was the man that used that expression in connection with that very matter.

Mr. DUFF: Well, then, perhaps I cannot go into this thing any further if you are going to rule that way, Mr. Chairman. It seems to me I have a perfect right to ask any questions with regard to advances made by the banks on the wheat question, or anything else.

Mr. LAWSON: You have a perfect right to ask any questions with respect to advances on wheat made by the banks, but the words "anything else" are something different.

Mr. DUFF: Mr. Chairman, you refuse to allow the question?

The CHAIRMAN: I cannot stop you asking a question.

Mr. TOMPKINS: May I remind the committee, as a matter of record, that the particulars of the so-called Provincial restrictive legislation were placed before the Royal Commission in several hearings and are included in the evidence on record.

Mr. IRVINE: Mr. Chairman, do you intend to continue until 11 o'clock?

The CHAIRMAN: I should hope so.

By Mr. Irvine:

Q. I have a question or two I would like to ask Mr. Logan. Mr. Logan, may I say that I will likely be ruled out of order before I get very far, but I am going to adopt the method of our senior counsel over here and tell you exactly what I am trying to get at so that there will be no misunderstanding. I have no doubt, and I made this statement when I was trying to question the previous witness—I have no doubt that the banks of Canada have carried out to the letter the Bank Act, and have administered the financial system in vogue excellently, and you do not have to come here to convince me of that. My questions will have relation to the system you are administering, so my first question will be: are the loans made by the banks generally for the purpose of more production?—A. Production and consumption both. Every producer is a consumer.

Q. But I mean directly. I quite agree with you that indirectly some consumption will result from a loan made for productive purposes?—A. No, I would not say that. I think there are a lot of loans made for consumptive purposes as well.

[Mr. S. H. Logan]

Q. Would you give me an example of one that you think is made for consumptive purposes?—A. Loans to individuals. Take these various headings. There are manufacturers, consumers, producers, shipping, financial loans to private individuals and sundry dealers and traders.

Q. You just mentioned now loans to manufacturers. Primarily that loan is not for consumption, but for production?—A. Yes, but they must consume a large volume of goods.

Q. I appreciate that. I was thinking that the main object of the loan is surely for production. I suppose you would agree that if there were more money in the pockets of the Canadian consumers at the present moment that they could in all probability consume much more goods than they are now consuming?—A. If they have more money than they have now they would be greater purchasers, I suppose.

Q. What is the source, in your opinion, from which all purchasing power to the consumer is derived?

The CHAIRMAN: We are getting into the realm of economics again. This is something outside of our reference.

Mr. IRVINE: If the witness does not wish to answer it, that is all right.

The CHAIRMAN: I do not think it is relevant, to be frank with you.

Mr. IRVINE: I think I could argue its relevancy, but I won't do it, Mr. Chairman.

The CHAIRMAN: There were a whole lot of questions put this morning of the same character and I let them go, because I thought we would soon get through.

By Mr. Irvine:

Q. May I ask this question, then, if I cannot follow that line: In your opinion, Mr. Logan, if it were possible to finance consumption in Canada to the extent of the Canadian capacity to consume— —A. I would not attempt to answer that.

Q. I have not finished my question. However, may I turn to another line of questions, Mr. Logan, that I am sure will be very practical. May I say that I am asking these with a view to certain amendments that may be moved to the Bank Act, and I would like to get some information before the amendments are introduced.

The CHAIRMAN: In respect to that, I would think that if any member of the committee required any evidence with respect to cognate sections he would be entitled to ask the witness to return. My idea of order of procedure here is to deal with one thing at a time.

Mr. IRVINE: Well, I am quite willing to abide by your ruling, Mr. Chairman, but the questions I have are only three in number.

The CHAIRMAN: Well, put them, that may be the shortest way out.

Mr. IRVINE: The first question is with regard to wages of bank employees, bank clerks.

The CHAIRMAN: If Mr. Logan cares to answer that now I would say put them ahead; we will perhaps save a lot of time.

By Mr. Irvine:

Q. Do you mind answering some questions about that, Mr. Logan?—A. No, as far as I have the information.

Q. Have you a minimum wage paid to bank clerks and bank assistants generally?—A. Yes. We start our young boys in, at 16 to 17 years of age at an average of $450 a year. We used to start them around $500.

[Mr. S. H. Logan]

Q. And the increases are what?—A. Well, the increase in normal times should be about $100 a year, but do not forget in the last three or four years there have not been many increases, they have not been going that way.

Q. Have you any married help receiving less than $2,500 a year?—A. Oh, yes, hundreds of them.

Q. What would you say is the minimum for your married men?—A. We used to aim at our married men getting about $1,500 a year. In other words, they could not marry till they got $1,500, but we have been reducing that recently to $1,200, and $1,000. We would like to see them get at least $100 a month before they marry.

Q. Did you happen to notice the remarks of a Judge in Quebec in respect to a bank clerk that had been called before the Court in connection with stealing?—A. No.

Mr. Hackett: He had two automobiles and two ladies.

Mr. Irvine: That was not the statement of the Judge. The Judge said, I think, that it was $25 a month that he was receiving.

The Chairman: My recollection is $11 a week, I read that newspaper report.

Mr. Irvine: Yes. I have it here. The Judge said, that he could not be expected to be honest. Here it is:—

> How long have you been working at the bank?—A. Six years.
>
> Q. What is your position now?—A. I am a teller.
>
> Q. How much money passes through your hands in one day?—A. An average of more than $10,000.
>
> Q. How much are you paid?—A. Eleven dollars a week.
>
> "There is the answer to the question," said Judge Monet. "These institutions pay such small salaries that their employees are forced into stealing to make a living wage. Would you have stolen if you had made $25 a week?—A. No."

The Chairman: That last answer is obvious.

By Mr. Irvine:

Q. The question I want to get at, Mr. Logan, is this, that I think it will be generally acknowledged that the wages paid are much too small, and the next point is that the bank clerks are not organized to demand higher wages like other labour possibly is, and I would like to know whether you would oppose a section in the Bank Act providing for voluntary organization on the part of the bank clerks.

The Chairman: There is no prohibition now.

Mr. Irvine: There is no prohibition now but it was prohibited by the last revision, so far as the bankers were concerned; they opposed it here in this committee ten years ago, and I just wondered whether the opposition had been withdrawn.

The Witness: You make the statement that bank clerks are not well paid. Generally speaking I think, as a class, they are pretty well looked after, for instance, there is a pension fund or superannuation. I have a scale here now which can be completed at a later date for the record. At age 21 so many clerks get $630; at age 26 so many get up to $986; at age 32 so many reach $1,480; at age 38 some get up to $1,980; at age 44 some get up to $2,620. That can be more fully compiled and I can give a fund of information of that kind, if I know exactly what the committees orders.

[Mr. S. H. Logan]

By Mr. Irvine:

Q. I have here some information from bank clerks. I may say that I do not propose to disclose their names, so, if it is prohibited to use it, without disclosing their names, I might as well know it at the beginning.

The CHAIRMAN: I think it would be very improper to disclose their names.

By Mr. Irvine:

Q. Here is a section from the letter:—

> We could enumerate a great number of individual cases, but it will suffice to state that young men who have spent eight, or nine years, or even from ten to twelve years, or more, in a bank very frequently receive such small salaries as $700, or $800, a year, and the responsibility attached to their position may claim a substantial part of this remuneration. It may be added that in order to get new business and because of the keen competition between banks, they are often forced into additional expenses which do not occur in other careers.
>
> We also wish to lay stress on the point that such conditions are not only the result of the business depression which every industry has to face, but have always prevailed. In prosperous times bank employees were treated with much less liberality than their confreres of other trades —and now, in the face of constantly rising prices, their position becomes more and more abnormal. Considering that the shareholders, or owners of the banks, have always appropriated to themselves generous returns on their invested capital, we conclude that the staff has indirectly shouldered the burden of income taxation through untold sacrifices. They have largely contributed to the building of strong reserve funds and these should belong to them as well as to the stockholders, or to the public.

I just read that section to indicate that there is a very, very strong feeling on the part of bank clerks in general that they are not paid sufficient, but on the other hand they have no recourse to demand higher pay such as has other organized labour, and I would like to ask you, sir, if you, as a banker, have any objection if the bank clerks, say in your bank throughout Canada, were to decide to organize a bank clerks' organization?—A. I think we would much prefer to deal with our own staff ourselves. That is my own feeling. We always have felt that we have treated our own staff pretty well. I must say we have gone through a period of four years in which none of our men have had increases. I know it gets very discouraging, but on the other hand do not forget they all have a job. If they are ill, for three months, or six months, their pay goes on just the same. They are all in under the pension scheme; they contribute one-half and the bank contributes one-half; then, in addition to that, they are in a group insurance scheme. All of these are very important benefits. They get their two or three weeks holidays in the summer and no pay is deducted, and if we can make reasonable profits they get a bonus at Christmas, but I do say that unfortunately during the last three or four years, we have had to cut salaries.

Q. My question, Mr. Logan, is not particularly confined to the last four years. However, I will not press that any further. I come to the last question and that is in respect to the pension fund to which you have just referred. You might describe, if you can do so briefly, how that pension fund is handled by the banks?—A. Ours is handled by a board of trustees. I do not know whether I have got full data with respect to pension matters with me to-night or not.

Q. Perhaps I could bring the thing to a focus by asking you whether it is true that when a bank clerk is discharged, or leaves the bank for any reason

[Mr. S. H. Logan]

whatsoever, that the moneys which he has paid into the pension fund are not paid him, but are retained in the fund?—A. He gets paid one-half, why should he get paid all.

Q. I am not saying he should, I wanted to know just what happens.—A. He gets half his payments from the time he is in the bank, but he has had all the benefits of the pension fund; if something happened him at the age of 30 that he could not work again, then he would get as much pension as he would be entitled to at that age, having in mind the salary and the amount of money he had paid into the fund; but if he retires and asks for his money back, he gets half his contributions back, and he ceases to have any further interest in the fund.

Mr. HACKETT: That is about the same rule that applies in the pension of a civil servant, is it not, Mr. Minister.

Hon. Mr. RHODES: A civil servant gets his proportion, providing he has been in the service ten years.

The WITNESS: I could at a later date supply that information much more accurately than I can now recall it.

By Mr. Irvine:

Q. The information I have is that they are not reimbursed at all.—A. They may get half of their pension fund payments, it depends probably on the length of service; but before I state definitely I would like to refer to our own rules and see exactly what it is. That is the practice, if a man is in for a certain length of time and he retires, he gets half his own contributions back; but before going finally on record I would like to enquire further.

The CHAIRMAN: Shall we adjourn now till Thursday morning?

Mr. GAGNON: Are we through with this particular phase?

The CHAIRMAN: Are we through with Mr. Logan? I think we could let him go.

I asked Mr. Wilson of the Royal Bank of Canada, to come here, and he has been here all day, but unfortunately we have not had an opportunity to hear him. I hesitate to ask him to come back.

Mr. IRVINE: Can we not meet to-morrow?

The CHAIRMAN: I do not see how we can meet to-morrow, because of meetings of other committees. Would it be too great an imposition to ask Mr. Wilson to come back Thursday?

Mr. WILSON: No, I will come back.

The CHAIRMAN: It is also suggested that we hear Dr. Marvin, and another gentleman—I can't remember who it was—he is an accountant of the Royal Bank, in relation to this question of the depression and bank policy.

Mr. IRVINE: I do not see why we should have any more in that regard, Mr. Chairman, unless we are allowed to go outside of the scope of that reference. We have quite enough evidence that the bankers have done all they could do. As far as I am concerned, I do not want to ask any more questions on that line.

Mr. DODDS: Might I just say: Mr. Coote asked for a list of names; we will be glad to provide it if we can find that information—we can get it and give it to him.

The CHAIRMAN: We could ask Mr. Wilson to come back and give some information on this point, and then take up the matter of interlocking directorates, I think he is prepared to give us some information on that other matter; and then there is the further item of the Order in Council No. 2693.

Now, if anybody wants any further evidence, any other witnesses called, he ought to let the sub-committee know in the morning.

Shall we ask Dr. Marvin to come?

Mr. SPENCER: I am not going to press it.

The CHAIRMAN: Was it you who asked for him? I am not going to bring him unless you want him.

Mr. SPENCER: If we could get the information from Mr. Wilson, we might not need him.

Mr. IRVINE: If you will.

The CHAIRMAN: If Dr. Marvin could answer that question, I would certainly be in favour of calling him.

Mr. IRVINE: He may have information about that, Mr. Chairman.

The CHAIRMAN: They all have.

The Committee adjourned at 10.50 p.m., to meet again on Thursday, April 12, 1934, at 11 o'clock a.m.

HOUSE OF COMMONS,

April 12th, 1934.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Mr. R. B. Hanson in the Chair.

The CHAIRMAN: Before we proceed with the investigation, I should like to say it has been pointed out to me that a very cursory reading of the French edition of the Minutes of Evidence No. 1 shows a lack of uniformity in the use of certain expressions, etc.

The work was done, apparently, by several translators. One uses the old country expression "Directeur général" for "General Manager" of a Bank, another translator uses the expression more common in Canada, "Gérant général"; another uses "directeur gérant".

Proposed amendments have been translated literally without reference to the French text of the motion, etc., proposed in English.

Exhibits which are reprinted as appendices are translated in one way. Where, in the course of evidence, the same exhibits are cited, a different translation is used.

As a result, it is difficult to co-ordinate evidence and exhibits, amendments and original motions, etc. I feel it is only right to point out that neither the Chairman nor the Committee Branch should be asked to accept responsibility for this lack of cohesion.

Mr. POWER: Has the Chairman any suggestion as to what we should do in the matter?

An Hon. MEMBER: I think we had better refer it to the Civil Service Committee.

Mr. POWER: There is a complaint that the French translation is being received much later than the English text. I think that is correct, is it not?

Hon. Mr. RHODES: That is another matter. We can deal with that.

Mr. POWER: I quite understand.

The CHAIRMAN: If there is any complaint about that I will take it up with the Clerk of the House.

Mr. POWER: I see the point you make. Undoubtedly if there are several translators on this work, and each translates the same technical terms in different ways throughout the report of some of those proceedings, it will lead to confusion. There is no question about that. Would it be possible for this committee to ask that a certain number of extra translators be put on this particular work, because several reports are now being translated by the same staff?

The CHAIRMAN: That is a fair proposal. I think I will discuss the matter with the Clerk of the House.

Mr. POWER: Mr. Gagnon is a better expert than I am on those matters.

The CHAIRMAN: I will bring the whole matter to the attention of Dr. Beauchesne. I presume he is the proper person with whom to get in touch. On the understanding that the matter will be brought to the attention of the proper official of the house, I think we may proceed. Mr. M. W. Wilson, General

Manager of the Royal Bank of Canada, is here to give evidence with respect to the question of deflation and the attitude of the banks. At the conclusion of Mr. Wilson's statement, he will, of course, be open to cross-examination by members of the committee. So far as I know, when that is concluded, the evidence will be closed on this phase, unless some member of the committee requests further witnesses be called. I should like to observe, at the close of this evidence, unless some other member of the committee requests somebody else, that we might call this part of the inquiry closed, but still open to call further evidence—

Mr. POWER: That is, my paragraph No. 2. So far as I am concerned, the gentlemen whom we have heard, up to the present, fully represent the views of the management of their banks. I must say I am fully confirmed in the opinion I have always had, that the management of the banks was excellent. My complaint, if any, is about the industrialists, and these are the people I want to get here, eventually.

The CHAIRMAN: Then, we will have to leave the question open, unless the committee decide otherwise. I do not want to shut off discussion on any phase, but I am just indicating the trend of my own opinion.

Mr. HOWARD: Mr. Chairman, expressing my own opinion, confirmed by long distance telephone call, received this morning, I think when these gentlemen are finished, it is perfectly proper that the other side of the question should be heard. I think we should get the other side of the question from the other people interested.

The CHAIRMAN: If those who have that opinion would submit a list of witnesses, they would like to call, the sub-committee will be called together at once to consider it.

Mr. POWER: All right.

The CHAIRMAN: We shall now call on Mr. Wilson.

Mr. M. W. WILSON called.

The CHAIRMAN: I understand Mr. Wilson has a brief statement to make, after which he will be open for question.

The WITNESS: I have a statement I should like to make, but it is a very brief one, having regard to the fact you have heard some other three general managers, and they have covered the question very comprehensively. That statement is as follows:—

Memorandum in respect to Section 2 of Mr. Power's amendment, reading as follows:—

> To inquire into the general policies adopted by the commercial banks to combat the effects of the depression and to what extent the said banks are responsible for the drastic deflation from which the country suffered and as still suffering.

Section 1.—Policies adopted to combat the effects of depression. The depression which commenced in 1929 was world wide in character and unexampled in severity. Its effect on Canadian exports is indicated by the following figures:—

1928	$1,374,246,233
1929	1,208,338,430
1930	905,460,353
1931	617,243,023
1932	501,839,326

[Mr. M. W. Wilson]

Canadian prosperity is dependent to such a material extent on export trade that the drastic decline in our foreign shipments inevitably produced a depression. World-wide deflation and curtailment in purchasing power presented a situation which Canada could not solve. No Canadian agency, banking or governmental, could have enabled us entirely to avoid the depression. It remains to discuss what action was taken, or could have been taken, to mitigate its effects.

The position of commercial banks in a deflationary period.—Declining price levels have a double effect on business. They discourage enterprise, thus reducing the physical volume of trade, and they cause inventory losses. Commencing with the year 1930, the operating results of borrowing customers of the banks were very adversely affected for both these reasons.

The first duty of a bank is to its depositors. No bank can long hope to remain in existence if it adopts a complacent attitude in respect to debts which have become unsatisfactory and threaten to become unsafe. It was necessary, therefore, for the banks in a number of cases during the last few years, to advise borrowing customers (1) That operating expenses must be reduced to minimize losses: (2) That loans must be reduced to figures which would be more in line with the new situation of lower price levels and reduced volume of business, and (3) That they could not allow continued impairment of liquid positions through payment of dividends.

The position of a creditor during a deflationary period is an unenviable one. The value of his security and of his borrower's assets is on the downgrade, and his risk of loss is greatly augmented. On the other hand, the debtor, through no fault of his own, finds that the real burden of his obligation has been increased, and that the creditor, whose loans represented so many units of a given commodity when the advances were made, is pressing for reduction or repayment when many more units of the commodity are required to effect liquidation. The natural tendency is to regard creditors as unfair; and this applies particularly to banks. For one thing, it is probably in the minds of many, that since banks deal in money, they are in some way, responsible for its value. For another thing, the size of bank's assets leads to the popular supposition that they are wealthy institutions. Their obligations to depositors are overlooked. The cardinal fact to be borne in mind is that distress among borrowers during the 1929-33 period was so general, that a few concessions or debt reductions on the part of the banks would have produced no effects of importance, while a general compromise of obligations or too casual an attitude in respect to collection of loans, would have involved a disregard of the interests of the depositors and the safety of their deposits.

Banks are intermediaries, lending the funds of hundreds of thousands of small depositors. These depositors are creditors of the banks. No bank must ask or expect any concession from its creditors. In a general way, therefore, it cannot voluntarily remit any portion of the debts owing to it. There is no question of choice in this matter.

Under these circumstances, all the banks can do to combat a deflationary depression is to use reason and common sense in their dealings with borrowers; to avoid insisting on the impossible being accomplished in the way of reductions in loans; and to continue banking facilities so long as there is a reasonable prospect for the individual or company to continue in business. This was the general practice of the Canadian banks during the last four years. A great number of borrowers were carried along in spite of their reduced financial responsibility, and a vanishing margin of protection for the lenders. Not only were existing loans continued—subject to such reductions as the circumstances permitted, but new advances were made for seasonal requirements. All indivi-

[Mr. M. W. Wilson]

duals or companies could not be saved from bankruptcy or winding-up, but the number of borrowers of both classes who have come through to better times after four years of unprecedented depression, answers the question of "What the banks did to combat the depression?" and answers it satisfactorily, if only the limits of banks' powers in this respect are understood.

In combatting a deflationary depression, the utmost that banks can do consistent with their duty to depositors, can be summarized in the words:—

1. Orderly liquidation whenever possible.
2. The acceptance of something more than a normal risk in making fresh advances to enable the continuance of operations.

But the banks must never accept too great a risk in the hope of remedying extremely bad situations. If such cases can be helped at all, they call for public relief of some kind, and not for any assistance from the funds entrusted to the banks by their depositors.

Section 2. The extent to which banks are responsible for the deflation.—As a small country, Canada tends to share the prosperity or depression of the larger countries of the world. She is particularly influenced by her neighbour, the United States, and by her important customer, the United Kingdom. Moreover, so long as Canadian exchange remains at parity with the U.S. dollar or the pound sterling, Canadian commodity price levels must follow the price levels of the other country or countries concerned.

Canada would not have felt the depression if she could have,—

(1) Maintained the volume of her business, and

(2) Maintained her commodity price levels.

In view of Canada's dependence on exports, obviously it was beyond anyone's power to maintain the volume in the face of reduced world purchasing power. To the extent that restricted volume was responsible for the situation of the last four years, the depression in Canada was inevitable.

But the effects of the depression were intensified and extended by sharply declining price levels. So long as Canadian money was at parity with the U.S. dollar, the pound sterling and other leading currencies, it was impossible to expect a materially higher price level than that prevailing in the other countries. We cannot dictate the world price of any commodity. If Canadian prices of our export commodities had been relatively high, we would have been unable to sell in world markets; similarly, if domestic commodities got out of line, imports at lower prices would have brought them down. Nor could we have expected that a movement to restore Canadian price levels would have been followed by other countries. We have not the necessary power and influence.

The only way in which the Canadian price level could have been maintained at higher figures than prevailed in the United States, for example, was to change the value of our money in relation to the U.S. dollar. There is literally, no other way in which this country could have arrested or mitigated the price decline which was taking place.

In dealing with the question, "To what extent the said banks are responsible for the drastic deflation from which the country suffered and is still suffering," we must therefore inquire what power banks had to control foreign exchange rates. The banks have no power whatever to set exchange rates. They take no speculative positions. They buy exchange from customers only to the extent and at the prices at which they can sell it to others; and they sell only what they can buy. In respect to foreign exchange, the bank's function is only that of an intermediary or broker operating on a fractional margin of profit. To take a substantial position in exchange in an attempt to influence the rate, would involve a risk that would be completely indefensible. It follows that a deliberate

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policy of lowering the value of money in an effort to arrest or mitigate the deflation of price levels, can be adopted by one agency only, namely, the government of the country concerned, as policies of inflation or deflation, or of exchange regulation, lie within the domain of government, or of some closely allied power.

By Mr. Power:

Q. I was making notes as you were reading, and I caught a portion of what you said, Mr. Wilson, with regard to exchange?—A. Yes.

Q. The banks do not control exchange?—A. No.

Q. Who does?—A. The banks are only, as I stated before, intermediaries. We buy from exporters and we sell to importers. We do not create exchange ourselves. Who controls it? Well, if somebody were prepared to take a position—that is, I could raise the rate of New York funds to-morrow if I were prepared to go into the market with one million, five million, ten millions of my bank's money and buy exchange, I would certainly put it up, but that would be speculation, which of course I couldn't do.

Q. It is within my memory that, towards the end of the war, timber exporters, in Quebec, as well as lumber exporters, were allowed to accumulate large sums in sterling on the other side of the ocean——A. Yes.

Q. As you know, in 1919, and 1930, there was a rising market for timber and lumber. They were allowed to accumulate large sums there, and, at the same time, the banks on this side were prepared to allow them to borrow against those sums.—A. In other words, banks in Canada loaned against sterling deposited in London.

Q. Is not that encouraging, or assisting, in the transaction in exchange? After all, that is what it was?—A. Assisting in transactions in exchange, certainly; that is our business.

Q. In making——A. In assisting to carry out exchange transactions, but we in the instance you cite would not be taking any risk at all, presuming we did not loan too much money against it. Is your suggestion we were helping that customer to speculate?

Q. My suggestion is approximately that.—A. You have got to define where legitimate business stops and begins. If you are in the lumber business, and you want to carry an inventory, it may be sound judgment in the minds of yourself and myself to carry a very large inventory, but it may be in the minds of others that you are speculating.

Q. Supposing the same circumstance occurred all along the line?—A. Oh, but it does not.

Q. Suppose it occurred all along the line at that period?—A. But it does not, because as a matter of practice, Major Power, banks do not like those transactions for the obvious reason that they frequently cause trouble. You are in a constant wrangle with your customer. He does not want to sell his sterling on the day's market; he always thinks it is going higher.

Q. He wants to speculate?—A. He thinks it is going to rise. You are in a constant wrangle with him, to get that loan liquidated. Perhaps the market has gone against you. The further it goes against you, the more anxious I am to have it liquidated, and the more reluctant you are to liquidate it. For this very reason the bank avoids these transactions as far as it possibly can.

Q. If a large number of people under the same circumstances were permitted by the bank, or encouraged by the banks, to carry on transactions of this nature, would not there be a species of control, at least, of exchange?—A. No, I would not say control. Control is something very different from that, I would say.

Mr. MacMillan (*Saskatoon*): Stock market boom.

The Witness: There is no control.

[Mr. M. W. Wilson]

By Mr. Power:

Q. Now, is it not a fact that one of the great troubles with the defunct Union Bank——A. Which we took over.

Q. —was due to speculating in exchange by the bank?—A. I don't know. I heard that, but perhaps that is one reason why they are no longer in existence. That would be an illustration of my point.

Q. That is one bank which did that?—A. I understand. I have no evidence of it, because I have been too busy to dig into the history of the thing.

Q. Would you explain to me why there is such a great difference, or differential, between the exchange fluctuations as asked from the various banks on any given day?—A. Because exchange—

Q. Either in sterling or U.S. funds?—A. Because exchange is something that fluctuates every hour in the day. Now, why it does is because it is a very sensitive market; it is a world market, and events in London, Montreal, New York and other parts all affect exchange.

Q. Why should I, for instance, call you up and then call up the Bank of Montreal, or a half dozen other banks, in order to find out what the rate of exchange is. Is it not a fact you are endeavouring to make a great profit on the exchange?—A. Make a great profit? We are trying to make a profit. I give you my word it is not great by any means. There is the keenest sort of competition in the exchange business, and when we are dealing in exchange, we are thinking not of great profits; we are thinking of 1/32, 1/64, and 1/128, and things of that sort.

Q. But, even though you are thinking in the terms of the figures you have just indicated, when you are dealing in millions, it amounts to a tidy sum?—A. It amounts to a tidy sum if you do not take into account the expense incurred. You incur an expense in handling exchange, and the losses you make from time to time. I may buy something this morning, and I have to sell it at a loss before the end of the day, perhaps.

By the Chairman:

Q. There are losses?—A. You have heard what he said about a certain bank.

By Mr. Power:

Q. Then you do speculate in exchange on occasions?—A. I have heard—

Q. Your bank does not?—A. No.

Q. On the occasions when you lose?—A. No, Major, that is not fair. I did not say we speculated in exchange. We are merchants in exchange. I made that very clear. We do not create the exchange; we buy and sell. To the extent that we are merchants we must take a merchant's risk. It is invariably the rule that we close out our position at the end of the day at a profit or a loss. If we made a loss on the day's trading, we close out, and we hope over the average of the year we will come out on the right side. Sometimes we do, but sometimes we do not.

Q. It has been said that, during the time the U.S. exchange was fluctuating—and I think at the same time sterling was—that the banks made very large profits. Is it a fair question to ask you if that is true, or not?—A. They would perhaps make a large profit relatively, and then make a relatively large loss on the next transaction. Most banks want stability. It is the thing we like. We do not like rates fluctuating all around the board any more than you as a lumberman would wish to deal in lumber that is selling up and down—

Q. I am not a lumberman?—A. If you were—at $17 to-morrow, and something else the next day. We want stability. If we have stability, we can make the best results in our business.

Q. I suppose it would not be fair to ask you, or any of the other bankers, this question: We should like to ascertain from you, from your profit and loss

[Mr. M. W. Wilson]

account in any given year, what profit you made out of exchange?—A. I am not the one to decide whether it would be fair or not.

Q. Would it embarrass you?—A. Yes, it would, unless you ask everybody else to do the same. You obviously would not ask me to disclose mine, without the other banker disclosing his.

Q. It would embarrass you, if you were asked that?—A. The same way it would embarrass you to disclose the details of your private business.

Q. Would it be a fair question to ask all the banks, to give us a statement of that kind?—A. No, I would not think so, because I think you are under a misapprehension as to the profits the banks make out of that. It is a very competitive business. You know, as a business man, we seldom have a large transaction in exchange but that it happens as you mentioned a moment ago, we are telephoned and two or three other banks are telephoned. So the chances to make profits under those conditions are not very great. If we were the only bank in the business I would have a fine time.

Q. Was there ever an understanding between the banks as to what— —A. No, unfortunately there is not. If there were we would have fewer headaches as bankers. We agree after hours, and we fight during business hours.

Q. This is one of the things you fight over?—A. Yes, we do.

Q. I think that is unanimous.

By Mr. Robinson:

Q. Is it not a fact that a committee of five bankers in New York set the exchange as between Canada and the U.S.?—A. No, absolutely no.

Q. I thought there was such a committee?—A. No, sir, nothing of that sort at all, and there never has been to my knowledge.

By Mr. Power:

Q. Would it be out of order, Mr. Chairman, if I were to ask Mr. Wilson if he can tell the committee how the new Central Bank will be able to regulate exchange, if the other banks cannot do it?

The CHAIRMAN: There is no objection to that question.

The WITNESS: Do you want me to tell you?

By Mr. Power:

Q. The answer is "No"?—A. No. They can, if somebody else will stand the shot. The somebody else, I take it, in the case of the Central Bank, would be the government. That is what happens in England.

Q. I do not quite understand.—A. If the government will give the Central Bank the funds with which to regulate exchange, to put it up or down, they can do it. If the government would give it to me then, I could do it; but the point I am trying to make, if I did it on my own account, it would need bank funds and it would be out and out speculation.

Q. That is to say, if the government would undertake the stabilization of exchange, as they undertake the stabilization of the price of wheat?—A. As the British government are doing with their funds. Mr. Dodds interjects, "as long as the funds last."

Q. This has developed into a conspiracy?—A. No, I told you what he said.

Mr. HOWARD: You bankers had better agree beforehand.

The CHAIRMAN: Mr. Dodds said, "as long as the funds last."

By Mr. Power:

Q. Is there a substance of truth in the statement that, after the depression came on, it became the practice of the banks, yours or any other, to charge more for loans, to raise the rate of interest?—A. Was it a general practice? No, I would not say so. In fact, the general trend of rates has been downward.

[Mr. M. W. Wilson]

Q. No, I mean immediately after the crash there may have been individual cases where, perhaps, you were carrying speculative loans, and that is the means you took sometimes to hasten liquidation of speculative loans, business loans, not commercial loans, farmers' loans or that type of thing?—A. No, I would say—

Q. Is it not a fact, when you thought the loan became a little shaky, you raised the amount of interest one-half per cent?—A. No, not because the borrower became shaky. If I thought he was shaky, I would call him in and discuss the matter quite frankly with him, and ask him whether he did not think he should get rid of some of his collateral and try to tidy the situation up. On the other hand, if I thought he was well able to pay the loan, and if he was what I, or you, would call the stubborn kind, perhaps we would put his rate up half of one per cent, and if he was Scotch, he might say, I am going to pay it, and would give us a cheque. That is what we wanted, and we accomplished our purpose, and we were both happy.

Q. One means you have to bring about the liquidation of a risky and shaky loan is to raise the rate of interest?—A. Oh well, in a very limited way, in a very casual way, nothing in the nature of a general increase.

Q. Well, there has been a rather general complaint to the effect that after the depression when the financial position was not in the same state, or not discovered to be in the same state that it was prior to the depression the rate of interest was raised?—A. Oh well, I do not think that is a complaint. If it is general, I have not heard of it, but, if it is general, it is not justified.

Q. It is not justified?—A. Oh no, absolutely not.

Q. But you will admit nevertheless——A. There are isolated cases, of course; rates are going up and down every day. There is always someone hammering for a lower rate, in fact, municipalities and governments are "jewing" us down all the time.

Q. I would hate to mention the C.P.R. loan. I do not see any "jewing" of you down on the C.P.R. guarantee, nor do I see any "jewing" of you down in the loan to the Dominion Iron and Steel, at 6 per cent, guaranteed by the Dominion government; I do not think anybody is "jewing" you down very much on that.—A. On what?

Q. The Dominion Iron and Steel have a guaranteed loan, I thought it was through your bank.—A. Well, we were one of three banks.

Q. That was at 6 per cent?—A. That is what they pay, yes, and that is what they should pay. If they don't, I will see to it that they do. I do not see why Dominion Steel and Coal should borrow at any lower rate than any other commercial concern.

Q. Guaranteed by the government?—A. Guaranteed by the government, yes; I do not attach very much importance to that.

Q. I am afraid you will have a fight with the Finance Minister, if you say you do not attach much importance to a government guarantee.

By the Chairman:

Q. I would like to ask Mr. Wilson if the bank asked for that guarantee? —A. Oh, no, we had nothing to do with it.

Q. Or did the company?—A. The company did. The company were taking on a long term transaction with Canadian National Railways and they wanted some protection, and the government were the only shareholders of the Canadian National Railways prepared to help.

Hon. Mr. RHODES: If it is any comfort to you, Mr. Power, I might say the government justified that transaction on the basis of relief.

The WITNESS: The mayor of Sydney said recently that it took everybody off relief in the city of Sydney.

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Hon. Mr. RHODES: It will not cost the government 6 per cent, or 6 cents, if the obligation is paid off, as we think it will be.

Mr. POWER: As a matter of fact, I have some recollection—if my recollection is good—that it has cost the government, up to the present time, something like thirteen thousand dollars.

Hon. Mr. RHODES: There is no need of us going into this transaction here; it only has to do with roughly half of the amount involved, so it would be 3 per cent, on that basis, because the material was supplied by the company, without any interest charge at all.

Mr. POWER: I am not going any further except to say, in answer to the minister, that my understanding was that an order in council was passed, recently, whereby the amount paid was $13,000.

The WITNESS: The government guarantee does not cover 6 per cent; it is limited to 5 per cent, but we make the borrower pay the other 1 per cent.

By Mr. Power:

Q. Now, Mr. Wilson, I addressed a few questions to Mr. Dodds as to the situation in regard to securities, or let us say the call loan situation, in Montreal, after the 1931 crash.—A. The Fall of 1931.

Q. The Fall of 1931, when stocks were pegged on the Montreal stock exchange. Did you have any cognizance, or knowledge, of an arrangement made with the President of the stock exchange to the effect that the banks would support securities, or support the pegging of securities?—A. Well, unlike Mr. Dodds, I was in Montreal at that period and I had a lot to do with it. I sat in at innumerable conferences, and I very well remember Sunday, the 21st September, being at a conference when they sat until 2 o'clock in the morning, at which time we were all worn out and went home.

Q. I have attended many of those myself.—A. I think we are thinking of different things. These were bankers and brokers and they were all in a very serious mood, believe me.

Q. You are perhaps more clear as to the result of your evening's entertainment than, perhaps, I would have been.—A. Well, I would not say that.

Q. What was the net result?—A. I do not pretend to remember all the details because, as I say, the conference that took place that night was one, I suppose of fifty conferences that have taken place in the last three or four years. It seemed to be just a series of crises and whenever the stock brokers got into trouble they simply sent for the bankers to hold their hand. They asked for our advice as to what they should do, as to whether they should open the exchange the next morning. It was suggested—I do not know by whom and it makes no difference, I suppose—that they should find out what they were going to do down in New York, and I recall very well that when we broke up at 2 o'clock in the morning New York had not then decided what they were going to do. They subsequently did decide to open and they had, as you know, a pretty bad time. The Montreal brokers in their wisdom, or unwisdom if you care to call it such, decided they would open too, but that they would peg prices, that is, the closing price of the previous day would be the price at which any transactions would go through. The result was there were very few transactions going through because there were few people ready to buy at the previous day's price. However, it gave people a chance to get their bearings.

Q. I quite understand that, but that understanding or arrangement, was arrived at in consultation with the bankers, was it not?—A. They asked us for our advice. We took no responsibility for it and we would not make the decision. They asked us what we thought they should do. We told them that the

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exchange did it during the war and it was a make-shift, but it was the best thing that anybody could think of.

Q. And, to the best of your knowledge, the banks, either individually or through the association, or otherwise, took no action in that matter or took no responsibility?—A. Oh, well, it was not our affair. We did make that very plain. We talked it over with them, we did just the same with them as we would do with you as a customer coming into the bank asking for advice.

Q. Well, but brokers were interested in the pegging of these prices largely so that they could carry the stocks, which they did, at a pegged price, is that not right?—A. They thought they were doing something in the public interest. Perhaps in saving their own clients, they were saving themselves too; no doubt they were, because their interests are interwoven; you cannot say where one begins and the other ends.

Q. You did not call for additional margin beyond the pegged price?—A. Oh, no. We tried to co-operate. What was the use; they did not have it, and they could not get it. We did not want to put "The Street" into liquidation.

Q. You encouraged the pegging of prices?—A. We encouraged,—well yes, if you want to put it that way. I have told you frankly what happened, and I would give the same advice to-day if I were asked the same question under similar conditions.

Q. I am merely seeking for information.—A. I thought you were trying to define what responsibility the bank had for their attitude, and I am trying to tell you as clearly as I know, but I am not a lawyer and perhaps I do not think—

Q. You are doing pretty well. It has been suggested to me that we can realize that you very often have dealings with lawyers?—A. Yes, I know a number of them.

Q. Then you declined to take any responsibility for the arrangement, yet you are prepared to state that you permitted the brokers to understand that they would not be called for further margin, beyond the pegged price?—A. Oh, yes, but you could not make an arrangement of that sort for any time. It was a panicky time. We gave them the advice that we thought was sound under those abnormal conditions, but it was a day to day thing, conferences all the time, Sundays, nights, all sorts of them.

Q. It was not made for any length of time?—A. No, not a bit, because, Major Power, we would not tie our hands. The chartered banks were not the only people loaning money on the street. There is a lot of private money loaned on the street and I would be very foolish if I sat down and said, for my bank, I will not do this, or I will do that for a period of weeks, or months, when I did not know what the other fellow was going to do. I will co-operate, if the other fellow comes along too.

Q. The next time a broker comes to you and asks you to hold his hand, tell him to go to somebody else?—A. Oh, no, that would not be polite.

Q. How long did this understanding last?—A. I cannot tell you, Major Power.

Q. Have you any idea of about at what period of time the banks began to sell under the market price, began to sell their own stocks or their clients' stocks under the market price?—A. In other words, sell them outside the exchange?

Q. Yes?—A. So far as I know we never did; I have no recollection of it. We would be defeating the very thing that we advised them to do.

Q. That is the burden of the charge I am trying to bring against you?—A. I think I understand that too.

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Q. And you say that is not so?—A. I have no recollection of it. I have no recollection of doing a thing like that, and I do not see how it could be done because you would hardly be keeping faith, especially in view of the fact that we suggested that they adopt a certain course and then go out and do something entirely opposite myself. We would not do that.

Q. If you have two clients one of whom had 100 shares of Montreal Power and another who had a certain amount of money and who might be a purchaser of Montreal Power at a bargain, and you knew that the one that had the 100 shares of Montreal Power was in a rather shaky condition, could not sell his stuff at the market price or at the pegged price—I am saying 100 shares although probably it might be a thousand—was it not your practice to tell Mr. A. this: "Now, Mr. B. is possibly a buyer, you go and sell the stock to him for twenty".—A. I do not think I ever told anybody that in my life. I am not in the stockbroker business, so why should I. There would probably be another amendment to the Bank Act suggested if we were to do that sort of thing.

Q. It is bad enough to be in the security business without being in the stock market business.—A. There are degrees, you see.

Q. But, to your knowledge, that was not a common practice?—A. Seriously no, Major Power.

Q. Now, I understood you to say that it was after the crash that you advised certain clients of yours to discontinue the payment of dividends which might possibly impair their capital. Was that step taken prior to the crash?—A. Many times before, whenever the situation of a company justified it. That is our duty as bankers.

Q. But you did not insist more particularly after the crash?—A. No, but you can quite understand when most companies were losing money that you would, of necessity, have to discuss it more often than you did in say 1927 or 1928 when most companies were making money.

Q. Without asking you any question as to any specific company, but having one, in my own mind, which I shall not mention, did you ever allow a company to borrow money from you with which to pay dividends after the crash?—A. If they were in a sound position and the financial position of the company justified it, yes. There is no objection legally, nor is there any objection morally, or economically or otherwise. There are, of course, certain companies that are paying dividends regularly that are borrowing steadily from banks. There is nothing wrong in that.

Q. If it is justified by the financial position, that is to say, their capital financial position?—A. Oh yes, and their liquid position. That is what bankers look out for.

Q. I shall probably have to refer to that, later on, when I am discussing the pulp and paper industry, but I do know of one company which a short time after it paid dividends was put into liquidation, and the dividends were paid out of money borrowed from the bank.—A. Nothing improper about that at all.

Q. There is nothing improper about that at all?—A. Oh, absolutely not.

Q. We had some discussion the other day with Mr. Dodds on the subject of the recommendation by banks to clients to purchase securities.—A. I heard some of it, I do not know whether I heard it all.

Q. Do you take the same attitude as Mr. Dodds, that you do not recommend the purchase of securities to your clients?—A. Well, one can not answer that "Yes" or "No." Banks are in the security business, in fact, banks all over the world are, but our security business is limited principally to Dominion bonds, Provincial bonds and Municipal securities. You mentioned pulp

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and paper, which brings to my mind that no bank in Canada has ever sponsored the sale of pulp and paper securities, not that that is casting any reflection on the industry but simply because they just have not done it. I want to be clear on that. I do not want to be taken as singling that particular industry out because it is our biggest manufacturing industry, and it is not dead yet either. However, we are in a limited way in the security business. We put our name on a prospectus selling Dominion government, or Provincial bonds, or City of Quebec or City of Montreal securities, and we feel that we recommend them otherwise we would not put our name on the prospectus. I would not offer a man something, or advise him to buy something, that I did not think was good.

Q. Well, do your controlled or affiliated companies——A. We haven't any, but go ahead, it is a hypothetical question.

Q. No controlled companies?—A. The only controlled company we have is our own real estate holding company, that is, Royal Bank 100 per cent owned, but that company does not do any business with the public. We have no controlled or associated or affiliated companies, or any subsidiaries.

Q. You would not call the Montreal Trust Company a subsidiary?—A. We do not own a share of it.

Q. You would not call it an associated company?—A. We do not own any shares, if you are talking of the bank.

Q. I see your distinction, Mr. Wilson. However, we may come to that some other time.—A. I dare say.

Q. Under another item. But the point I am trying to make is, would there not be a tendency, owing to your admitted affiliation, through directors, to give perhaps better support to securities sold through your affiliate than to other securities?—A. You are talking of affiliates again. As I say, we have none. If you mean the Montreal Trust Company, the Montreal Trust Company does not buy securities or sell securities. That is not their business, they are a Trust Company.

Q. No, it underwrites.—A. No, it does not. It never underwrote a security in its life. It buys investments for estates that it controls or invests funds that it controls, but there is no underwriting. They never did such a thing in their history.

Q. I have no doubt they have what might be called a recommended list of securities?—A. Oh yes, surely. I happened to pass on some yesterday: Dominion government bonds. That was their recommended list yesterday.

Q. Perhaps yesterday, but, perhaps, the day before yesterday, and the day before that, it may not have been quite the same?—A. Well, possibly not. I do not get your point, Major Power.

Mr. Ernst: Such securities would have to be "trustee securities" in this case, unless there was freedom given by the particular bequest or trust fund.

Mr. Power: I quite understand that, I am not discussing that.

The Chairman: Might you just make your point clear; it is not quite clear to me, Mr. Power.

By Mr. Power:

Q. My point is, that trust companies do recommend to their clients, and to estates which, as Mr. Ernst very properly points out, can purchase trustee securities—but trust companies do recommend the purchase of certain other securities?—A. They not only recommend but they purchase them. They act for estates and as agents for many people, and as such they make investments; they frequently have the sole discretion as to what they should buy; but they do not make recommendations in the sense that you perhaps might drop in, as

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a stranger, and ask the manager what is a good thing to buy. In that case he would say: Well, we have no relations with you, we do not know anything about you, it is not our business, you had better go and talk to somebody who is in the security business.

Q. Would there not be a tendency on the part of the bank in the class of securities which are recommended in that way by the Montreal Trust to endeavour, as far as possible, to support those securities in the market?—A. Would the Royal Bank try to support in the market securities that that trust company bought for these estates or clients?

Q. Or recommend them?—A. The Royal Bank as a bank would not know what they were. I might know, because I happen to be a director, and a member of the executive committee of the trust company, but I do not buy the securities.

Q. But would there not be a tendency on your part to support these securities?—A. No, the bank does not buy that type of securities. Our purchases of securities are government securities, and we do not need anybody's advice about them. I have my own idea of what a Dominion government bond is worth or Province of Ontario bonds are worth.

Q. But, in your capacity as a banker then, after having passed on a line of securities in your capacity as a Montreal Trust director, you find that some of your clients are perhaps loaded up with certain securities— —A. You mean some of the bank's clients?

Q. Yes, loaded up with certain securities, collateral, would it affect your judgment in telling them to sell, or would it not?—A. Are not you imputing motives to me that you would not like me to impute to you? In other words, would I try to unload something that the bank had.

Q. Pardon me, I had no such intention.

The CHAIRMAN: I think you both are at cross purposes.

The WITNESS: Will you please repeat your question.

By Mr. Power:

Q. Well, you are an administrator of the Montreal Trust Company?—A. I am a director. I do not run their business though.

Q. No, no. Yesterday, you say, you passed on certain securities that you thought were securities that could be recommended?—A. Yes.

Q. Say I happen to be a client of your bank?—A. Yes.

Q. And I happen to be in difficulties, or about to get into difficulties, and I own a large block of some of those securities, would you not feel that if you forced me to sell those securities that that might depress others that you had recommended as a director of the Trust Company?—A. No. But, Major, you overlook this fact: If you were in difficulties you would not be owning the type of securities that I recommended yesterday should be bought for these estates.

Q. Why not?—A. A man who buys Dominion of Canada bonds, or Province of Quebec bonds is not usually in difficulties.

Q. You will admit that there was a time, if not yesterday or the day before, when trust companies had, on their recommended list, securities other than Dominion Government, municipal bonds, and Province of Quebec bonds?—A. I do not understand what you mean by, "on their recommended list." You mean they bought securities other than Dominion Government and Provincial?

Q. If a client came in, or a person who wished to acquire a trust, came in and said, "Tell me what would be a good diversified list of common stocks and bonds?"—A. You mean the trust company would hand out a list.

Q. Yes, does not the trust company have such a list and say we have such a list and we think such and such would be a good investment?—A. I never heard of it. They would do as I would do. A customer might come into the

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bank and say he would like to invest some money and I would tell him he should buy government bonds. In many cases the man will say, "I do not want government bonds because I want a little higher yield." In such a case one might name over quite a number of good securities. I know in my case I would tell you, if you happened to be the customer, what I honestly thought about it, and that is all there would be to it; you would go away then and make your own decision.

Q. Does not the Montreal Trust Company, or some trust companies, have such a list? If you went into them and asked them how to invest your surplus funds, or estate funds, and stated to them that you did not want government bonds, don't they have such a list?—A. You mean a list that they could pull out of a drawer?

Q. Yes?—A. I would not think so. I cannot conceive why they should have, because that type of transaction would not happen often enough to make it necessary. If, in my business, I had someone coming in to me every day in that connection, in order to save time I might type out half a dozen items.

Q. That would be a purely personal thing?—A. Oh, yes.

Q. I am talking about the advice a trust company would give to someone asking for advice?—A. I am sure they would not.

The CHAIRMAN: You are suggesting a special policy on the part of the trust companies.

Mr. POWER: Yes, I am suggesting that if there is not now, at least there was, such a policy.

The WITNESS: You may know better than I. I am a director of only one trust company.

By Mr. Power:

Q. I am not a director of any. However, as far as you know, there is no such list?—A. Oh, no.

Q. It has been suggested to me that I go into the question of reserve funds but I think that had better come up when we discuss the appropriate section of the Bank Act.

The CHAIRMAN: I think that would be more cognate.

By Mr. Power:

Q. Mr. Mackenzie, who has been discussing this matter with Mr. Dodds, points out to me, that in a brief compiled and submitted, on behalf of the British Columbia Bond Dealers' Association, to the Royal Commission appointed by the Government of the Dominion of Canada to enquire into and make recommendation as to any necessary amendments to the Bank Act—the brief being dated September, 1933—on page 11 the following appears:

> Next let us present to you exhibit 10: a printed circular dated at Vancouver August 2, 1930. This is headed in large type as follows: "The Canadian Bank of Commerce Bond Department, Vancouver, Monthly Offering List." Printed on the front of it, in red, is this inscription—
>
> > Investment in high grade bonds is one excellent method of accumulating a substantial estate. We suggest that to begin a systematic savings plan for investment, it would be advantageous to open with this bank a special savings account, in which you would deposit a certain amount at regular intervals.
>
> This is followed, in bold type, by "Securities bought, sold, or quoted."
>
> In this list there is a total of sixty-six different issues of bonds offered. It is interesting to note that three of the issues offered—and which one

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might be presumed to infer—are to be considered "High grade bonds" designed to give effect to the Banks' "Excellent method of accumulating a substantial estate" are one hundred thousand dollars of Beauharnois Power Corporation, 6 per cent bonds at a price of 100—Five Thousand dollars of Abitibi Power and Paper Co. Ltd 5 per cent bonds at 86½ and two thousand dollars Canada Steamship Lines Limited 6 per cent bonds at 93, all of which bonds have since defaulted, and are still in default, as to interest payments and were quoted in April, last year, at 40, 15 and 17 respectively.

Mr. HOWARD: Was not Detroit Bridge also in there?

By Mr. Power:

Q. I gather from you, to the best of your knowledge no bank, or banks, have ever sold pulp and paper issues?—A. I know they did not, I had it checked up. I knew we never did; I had it checked up with respect to the other banks. I did not say have for sale. I said sponsored the securities issued.

The CHAIRMAN: There is a real distinction there, Mr. Power.

Mr. POWER: Mr. Dodds and Mr. Wilson do not agree as to whether the printing of the bank's name at the bottom of a prospectus for the sale of bonds is a recommendation or not. Mr. Dodds says "no" and Mr. Wilson says "yes."

The WITNESS: I am not disagreeing with Mr. Dodds. I simply say that my view would be that that carried an implied recommendation of the bank.

By Mr. Power:

Q. Referring to this particular circular?—A. I have never seen a circular like that.

Q. Would this imply any recommendation by the bank?—A. I think it would mean that they considered—undoubtedly it must mean that they considered—the securities listed as good securities to buy. I think it was a reasonably good list. You said it was dated. . . . When was it dated?

Q. August 2, 1930. Do not tell me that Abitibi was good in 1930?—A. It was.

Q. I will go into the banking business myself?—A. You can have my job, if you are looking for trouble. August, 1930. You said there were 60 odd issues there?

Q. No, $5,000 worth of Abitibi?—A. I am not thinking of the amount, I am thinking of the number of different issues in the circular issued in August, 1930.

Q. Sixty-six different issues of bonds?—A. Yes, sixty-six different issues of bonds and after the worst cataclysm that the world has ever seen, you found three had gone bad.

Q. I will give you more bad than that.—A. I thought you said there were only three bad. But, tell me, who submitted that list to the Macmillan Commission.

Q. The British Columbia Bondholders' Association.—A. That is rather good.

Q. The exhibits were all filed?—A. That was discussed very exhaustively. Did you read what the Macmillan Commission had to say about it after they heard all this discussion?

Q. I did, the other day.

The CHAIRMAN: It is mentioned in their report in paragraph 269.

By Mr. Power:

Q. Paragraph 269 reads as follows:

> While there is no doubt of the banks' right to deal in securities we could not fail to be impressed by evidence of abuses. It may be true

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> that the volume of industrial or other securities sponsored and distributed by the banks may have been small in comparison with that of the governmental and municipal issues sold by them, but we, nevertheless, strongly urge upon the Canadian banks the advisability of refraining from dealing in, or distributing for their own account, any but the highest class securities available in the country, and more particularly those issued by governments, municipalities and other public or semi-public bodies.

Section 270:

> As regards trading in stocks we do not consider that the banks should act otherwise than as agents for their customers to place such orders as they may receive through the regularly constituted channels provided by the brokers and investment bankers.

—A. There is no suggestion that the banks ever did act otherwise than as brokers.

Q. Did you read that yourself?—A. I was following it, yes.

Q. " As regards trading in stocks "?—A. Yes.

Q. " We do not consider that the banks should act otherwise than as agents for their customers "?—A. I read that, and it does not say that they ever did act in any other manner. They are just trying to emphasize the broker point of view. I may say, as far as I am concerned, I am fed up with corporation financing, in so far as our bond department is concerned.

Q. I would not blame you a bit?—A. Whether you do or not, I am.

Q. A lot of other people have made up their mind on that, too?

The Chairman: Hear, hear.

By Mr. Power:

Q. Does not there seem to be some implication, at least, in paragraph 269, which I have just read, that the banks have dealt with, sponsored or distributed — —A. Well, I am a little embarrassed. You refer to me the circular of another bank. I would rather not talk about another bank, no.

Q. You do not want to speak about what was issued by another bank? —A. Let me stick to what I know about my own institution.

Q. You quoted the Macmillan report to me?—A. Yes, that is right.

Q. I am now quoting it to you?—A. That is right. And I say there may have been abuses. I am not attempting to say what those abuses were. They could not have been serious, otherwise they would have been elaborated on. I take it that it is a reasonable assumption that the abuses were these: the bond dealers made very strong complaints that the banks were interfering with their business; they were too active in the bond departments. That is quite natural. We all hate competition. We all like to work alone. I do not blame the bond dealers at all for that; but on the other hand they do not like our competition. I do not see why we should give up a right that the bank has had, and all banks have had since time immemorial; I do not go that far. But we have tried never to be unfair with them, and without endeavouring to make a comparison, if you talk to the bond dealers individually, they will tell you that the Royal Bank has passed up many opportunities to cut into their business. In fact, I remember one time a gentleman who has been most active in the propaganda against the banks on the question of the securities business, saying to me over the lunch table—I emphasize where it was, over the lunch table—Wilson, you are a fool; you have 800 branches in Canada, and you could do all the security business in Canada, if you tried to.

Q. He did not ask you to give him the selling agency?—A. No, he was not looking for anything else. I had given him a lunch. He seriously felt that

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I considered the security end of our business just a little department, and so far as I am concerned, it will never be a big department of the Royal Bank, and I do not think it is of any other bank, either.

Q. You will concede this, I suppose, that in so far as the Macmillan Commission is concerned, the commissioners were in agreement in regard to the banks. Will you concede this, that paragraph 269 contains, at least, an implied condemnation?—A. Yes. I am not trying to read something in it that is not there.

By Mr. Irvine:

Q. Mr. Wilson, am I right in assuming that the banks in Canada have been administering the financial system of this country?—A. You will have to define "administering."

Q. That is to say that certain well-defined financial principles are accepted generally and embodied in the Bank Act that you administer in the sense that you carry out— —A. I would say we are operating banks within the four corners of the Bank Act.

Q. Do you think that in so operating you are limited to any extent in giving the fullest financial service to the economic requirements of the country? —A. In other words, are there adequate banking facilities in Canada?

Q. Not exactly that, unless you imply in banking facilities something more than what is generally understood?—A. That is just what I want to know. I do not want to agree with something I do not understand.

Q. Perhaps I can get at it this way. Here is a monthly letter of your own bank, and a very excellent one— —A. Thank you.

Q. It contains a paragraph which will bring out the point I want to make: "The present depression is usually explained in terms of extravagance, overproduction, excessive tariff barriers, etc. In varying degrees these, as well as other contributing factors, produced situations which were essentially unsound; but, speaking generally, the controlling influence has been the mismanagement of money and credit. The average price level is determined by the relation of goods and services rendered to the volume of the money supply, and the disastrous fall in the general price level would not have occurred had the supply of money been properly regulated.

Mr. MacMillan (*Saskatoon*): What is the date?

Mr. Irvine: February, 1932.

The Witness: I have that here.

By Mr. Irvine:

Q. What do you think of that statement; do you agree substantially with it?—A. I do not agree with everything that is said in there because this is a sort of, what shall I say, an educational department of the bank. And I do not disagree. I would not like it to go out that I materially disagree with it; but as you know on economic matters there are all shades of opinion; it is not all black and white as it used to be when we were young. There is a gray area now.

Q. Well, I would not agree, sir, that there is any room for difference of opinion about economic facts or economic principles. Economics is as scientific as any other branch of science?—A. Well, sir, it must be lovely to be that sure; I am not.

Q. Are you as sure about it as the bank was in its monthly letter?—A. Let me get back to this. I agree substantially with that, yes; that is what you want me to say.

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Q. Substantially. There may be shades of difference?—A. If I were writing it, I would have said it a little differently, put in a different expression in one case and another.

Q. In carrying on your banking business, were you aware of any restrictions which would have prevented your bank, or any other bank, from issuing sufficient money or credit to have met the economic situation?—A. No, I have never been conscious of any such restriction. I think under our system there is ample scope, for the granting of credit for the financial operations of the country, ample.

Q. Then, of course, you would not exactly agree with the statement in this monthly letter?—A. That is a world-wide survey, and it is not set out with particular reference to Canada. It is world-wide.

Q. Do you think it would be possible for Canada to have a domestic currency system which would be designed to supply the internal financial requirements of Canada, irrespective of the rest of the world?—A. I think we have it now. We are not suffering from any lack of currency in Canada.

Q. I won't go into the technique of what currency is?—A. I will go a step further, if you want me to. There is ample credit in Canada available—

Q. Let me ask you this: do you think that more goods and services could be properly used by the people of Canada to-day, if they had more money?—A. If they had money, undoubtedly. I could use some myself.

Q. Yes?—A. Yes.

Q. And therefore we are wholly right in assuming that there is a scarcity of money for consumers, at least?—A. Not necessarily. You said, "Could I use more services and goods if I had more money"? If I were disposed to spend it, yes. Lots of people have money which they have not been disposed to spend. That has been one of the troubles the last few years. People have been living as in a fright. They have seen such terrible things happen they have been afraid to spend normally.

Q. You are speaking now of those who had investments and bonds, but I am speaking of most of the people who have not money to spend. You are aware that about a million and a quarter of our people have been taken care of by the various governments for some years?—A. Yes, unfortunately I am.

Q. You would surely agree with this, that if these people had a little more money it would not be necessary for the government to take care of them?—A. Surely, I agree. If the farmers in southern Saskatchewan had not been visited with a drought for four years, they would be happy. I would be very glad to do anything I could to make them happy, but no one ever told me how to give them a good crop.

Q. I am not charging you, personally?—A. I understand.

Q. I am trying to get at this one thing, with which I believe the financial principles under which we are operating are bound up, and on which the Bank Act is based?—A. Yes.

Q. Do you think it is possible, under a financial system that is performing a proper function, that instead of issuing advances as they are issued now, to issue them on production?—A. Issuing what?

Q. Financial services; that is to say, credits to the financial corporations and production generally.

Mr. MacMillan (*Saskatoon*): Farmers.

Mr. Irvine: Yes, they are producers, too.

By Mr. Irvine:

Q. Instead of issuing the finances that the country requires for production, would it not be possible to issue them directly to the consumer and let them

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go to the producer through the purchase of goods?—A. That is a very long question, and I am not sure that I understand it. Be specific. You say, issuing money direct to the consumer? Who issues it direct?

Q. The banks do?—A. Well, I understand—

Q. Let me take a concrete case. Here is a boot and shoe factory, and they want to produce so many hundred thousand pairs of boots in a year. To do that, they go to the bank for financial assistance?—A. Yes.

Q. And obtain it, as they probably should. I am not discussing that. Then, the boots which they produce have to be sold?—A. Yes.

Q. And in the last analysis, the only people who buy those boots are the people who make them?—A. Well, they are part of the consuming public.

Q. I will show you how it works out. The only people to buy those boots are the people who make them and the only way they can buy them is out of the wages that they are paid for making them, and the same thing applies to every industry in the country.—A. Exactly, their purchasing power is limited to what they produce themselves. I agree with that.

Q. No, they purchase so many pairs of boots and they cannot purchase any more because they have not the money to buy them. That is the fact.—A. They should strike for higher wages, I should say.

Q. That is a very good admission from a banker. I hope sir, that you will carry that out when it comes to your bank clerks?—A. Well, we try to treat our bank clerks decently. You have not had very many complaints from them have you?

Q. Very many.—A. Why don't you do like other members of parliament, send those letters to me?

Q. I have more respect for the individual who complains, because it might go hard with him in some cases?—A. Strange as it may seem, I would try to be fair.

Q. To get back to the question I tried to elucidate?—A. I am trying to be serious, I find it difficult to follow the thing. Is this the Douglas theory? As an economist, I am a very fair banker. I am not competent to discuss Mr. Douglas' theories, but go ahead, I will answer any question I can.

Q. I did not call it Mr. Douglas' theory. I am merely asking you these things to see whether you think they are facts or not. If what I have said are not facts, just say so?—A. It could only be my own individual opinion.

Q. It is not a matter of opinion whether or not a wage earner has enough to buy goods out of the wages he obtains. Is that a matter of opinion?—A. No.

Q. That is a matter of fact?—A. You said a moment ago he produced the boots, and then when he came around to get a pair, he had not the wherewithal to buy them.

Q. Exactly.—A. That is what you said a moment ago.

The CHAIRMAN: If he had been thrifty he would be able to buy the boots.

Mr. IRVINE: I do not want to go into that; if he had practised thrift there would have been fewer boots bought and consequently more unemployment.

The CHAIRMAN: If he had practised proper thrift he would have had money with which to buy boots. If he had not spent money on automobiles he would be able to buy boots.

Mr. IRVINE: You are not saying that because he did not practice thrift he could not buy boots?

The CHAIRMAN: I do not want to get into an argument with you.

Mr. IRVINE: I hope not.

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By Mr. Irvine:

Q. Now a question and I will finish with this: Do you think it would be possible, instead of issuing money to the manufacturer of boots, so that it will filter down in the process of production and go out in wages, to issue it to the consumer, first of all, so that the money which he gets will rise up and reach the producer eventually, so the latter may carry on the industries of the country.

Mr. Ernst: I would suggest that Mr. Wilson, when he is asked that, be informed whether he is being asked to answer as a practical banker, or as an economist.

Mr. Irvine: I do not give a—which way you put it.

The Chairman: You are propounding the theories of Major Douglas, and I do not think you should address them to a banker. If you are addressing them to him as a banker, he will give you his answer.

Mr. Ernst: In other words, as a banker can he loan money for that purpose?

The Chairman: Can you loan the depositor's money for that purpose?

The Witness: You used the term "Issue". I am not very familiar with that, in the sense you use it; but you say, can we issue money to the ultimate customer instead of the manufacturer. As I see it now, we loan money to the manufacturer, and he buys his raw material, pays his wages—decent wages, I hope—and it trickles down and everybody gets a share. As a practical banker, I do not see how one can do it from the other end; because where would the manufacturer be, unless we make the loans to him. How could he buy his raw material, if we give the money to the consumer? According to your theory, the man who makes the products in the lower stages of production is the man who is the purchaser. Is he going to be satisfied with that?

Q. I think you have my point?—A. I think I have.

Q. Let us put it this way: I think you will agree with me that there are many pairs of boots on the shelves of warehouses to-day, and in our factories, that are not being moved because there are no purchasers?—A. Well, I think the boot and shoe business is very good.

Q. I am talking about hypothetical cases?—A. Well, there have been times when they could not move them as readily as they liked.

Q. There are many people in Canada who have no boots, and could use them well, even with the thrift they are using to-day?—A. Quite well.

Q. If, then, they were financed so that they could buy these boots and at the same time secure the wages, would not the manufacturers ultimately get the money?—A. In that sense you say the people have not the means of buying the boots and now you say they should be financed so that they could get them. You mean give them relief money. But that is what they are getting now.

Q. To some extent?—A. You give it another name, but it is the same thing.

Q. I must not take the time of the committee to carry this on much farther?—A. I am sorry if I do not understand some of the things.

Q. I think you understand very well. I am going to ask just one more question. Would you say that the banking system of Canada to-day—as a banking system, of course, it is good, you know—is better designed to finance securities than earnings?—A. I do not know what you mean by that. I think the banking system is designed to finance the business of the country.

By Mr. Fraser (Cariboo):

Q. Mr. Wilson, I should like to ask you a few questions. In your statement in reply to Mr. Irvine a moment ago, you said that banks were operating within the four corners of the Bank Act?—A. Yes.

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Q. Section 91 of the Bank Act reads as follows:—

> The Bank may stipulate for, take, reserve or exact any rate of interest or discount not exceeding 7 per cent per annum and may receive and take in advance any such rate, but no higher rate of interest shall be recoverable by the bank.

Now it has been stated by the other general managers who have appeared before the committee that the general rate of interest throughout the country is eight per cent.

Mr. DODDS: No sir, I never made any such statement.

The WITNESS: No, that statement was not made, sir.

By Mr. Fraser:

Q. Do you make the statement now that your bank does not charge eight per cent?—A. I make the statement that our bank does not charge eight per cent at the moment. I make the further statement that we charged eight per cent in certain cases in the past; and I will make a third statement. In doing so, we operate within the four corners of the Bank Act.

Q. Very well?—A. Would you like me to explain what I mean by that?

Q. All I want to ask, Mr. Wilson, is how you justify that rate of eight per cent?—A. I will tell you how we justify it.

Q. As being within the four corners of the Bank Act?—A. The section of the Bank Act to which you refer is very ambiguously drawn. There have been cases come before the courts, and one case in particular went to the highest court in the empire, the Privy Council; and the Privy Council decided that if a customer agreed to pay eight per cent or 7½ per cent, anything above 7 per cent, paid it voluntarily, he could not recover it back. Now that decision was made by the Privy Council in 1913, over twenty years ago. I say, then Mr. Fraser, that Parliament had twenty years in which to change that section of the Bank Act, if it was the intention that the banks and the people of the country should operate within the terms of this Privy Council decision. Is that a fair statement?

Q. Yes, that is your statement, and all I could expect.—A. Well, I do not know. I am serious.

Q. I would not say that is a statement that would be generally accepted, not by any means, by the customers of the banks?—A. Well—

The CHAIRMAN: Page 72 of the Macmillan report, sections 248, 249 and 250 set up the position. Section 250 states:

> The banks appear to have taken the view that if a client agrees to a higher rate than 7 per cent and actually pays it, so as to render the payment irrecoverable, the transaction is legitimate and by acting on this view have laid themselves open to the allegation that they have been evading the law.

Mr. FRASER: Yes; but I should like you to look at the preceding section, Mr. Chairman.

The CHAIRMAN: Yes?

Mr. FRASER: At the end of the section, commencing about the seventh line from the bottom where they comment on the judgment:

> The opinion of their Lordships as expressed by Lord Moulton (at page 316) was "that the express provisions of the first portion of this clause rendered it ultra vires on the part of the bank to insert in the chattel mortgage of May 28, 1907, the stipulation that interest should be payable at the rate of eight per cent, and that therefore that stipulation is inoperative." An illegitimate charge is not rendered legitimate by reason of the fact that if it had actually been repaid it may be irrecoverable.

Mr. DODDS: No court has dealt with this, sir. This is just the opinion of the commission; that was not a court.

The WITNESS: I will stick to my statement that the privy council interpreted that section.

Mr. FRASER: I am not competent to go into the legal aspect of it. I will leave that to some other members of the committee, I shall not pursue it further.

The WITNESS: I say now that Parliament is about to do the intelligent thing, clarify that section and make it clear that we cannot charge more than 7 per cent, and I am content with that.

Mr. FRASER: You put the onus on Parliament?

The WITNESS: They write the laws; we do not.

By Mr. Coote:

Q. In other words, you operate within the letter of the Bank Act, not within the spirit of it, is that what you mean?—A. I did not say that. I say we operate within the four corners of the law which the privy council was capable of interpreting in spirit as well as in letter.

The CHAIRMAN: I should like to point out to the members of the committee that the case of McHugh vs. the Union Bank of Canada was decided in 1913, and in 1923 we did try to fix that section so as to render it impossible to exact more than 7 per cent. I remember something about that.

Mr. COOTE: I remember the committee turning down an amendment which we brought down.

The CHAIRMAN: I do remember there was a change made in that section.

Mr. SPENCER: No.

The CHAIRMAN: There was a change made in section 91 in 1923.

Mr. SPENCER: Subsection 4 was put in in 1923.

Mr. COOTE: There was an amendment brought in which would have made 7 per cent the limit.

The CHAIRMAN: Well, we will look up the proceedings in 1923.

Mr. COOTE: But the amendment was defeated.

By Mr. Fraser (Cariboo):

Q. Subsection 4, Mr. Wilson?—A. Of the same section?

Q. Yes, of the same section:—

> No bank shall directly or indirectly charge or receive any sum whatsoever for the keeping of any account unless such charge is made by express agreement between the bank and the customer.

Now, does your bank make a service charge for keeping accounts?—A. We do it, by agreement with the customer.

Q. In the case of the collection of these accounts, in all cases of collection of a service charge, your answer is that you have a special agreement with the customer?—A. That is so, and that is our instruction to our managers and our staff, and nobody has yet stated to me that it has not been carried out.

Q. And, therefore, you are not violating the Bank Act when you are making that charge?—A. So far as I know we are observing the Act.

Q. When did your bank initiate the collection of these service charges?—A. The Royal Bank?

Q. Yes?—A. Not to my knowledge.

Q. I say when, at what time?—A. Excuse me, I misunderstood you.

Q. You have not always collected that service charge from your customers, or insisted on them signing an agreement of that kind?—A. No, but it has become pretty hard to make money nowadays.

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Q. The point of my question is this, was the inception of that charge not coincident with the depression?—A. No, no. This was put in by this Committee ten years ago, 1923.

Q. I am not talking about when it was put into the Bank Act. I am talking about when you put it into practical effect, the collection of that charge, when was that?—A. I cannot say exactly, but looking at this subsection I realize that that was passed in 1923; and the practice must antedate 1923; it must, otherwise why did the Committee deal with it then.

Q. Do you mean to tell me that the banks had been charging that service charge before 1923?—A. In cases, yes, in individual cases.

The CHAIRMAN: You and I never had to pay it, Mr. Fraser.

Mr. FRASER: I never heard of it until after this depression struck the country, but I have heard lots of comments on it since.

The WITNESS: It is done in almost every bank, in almost every country—the American banks, French banks and English banks all make this charge and have for a long long time.

Q. I quite understand about that, Mr. Wilson, but the point I wanted to clear up was this: Personally I never heard of the charge until after the depression but since then I have heard plenty about it?—A. Well all right, to summarize, the banks have been making this charge in individual cases for ten, fifteen and twenty years.

Q. Well then, was there not an increase in the number of accounts that were brought under the operation of that section, since the depression?—A. I would not say that, no.

Q. You would say there were not?—A. I cannot say "yes" or "no" to that, I have not looked it up, but I would not be surprised if there were though.

Q. You would not be surprised if there were?—A. Oh no, not at all.

Q. Your general profits are not as large and you are looking to that means to keep them up?—A. We are like everybody else, we are working hard every day to keep out of the red.

The CHAIRMAN: Before we leave this question of 7 per cent, there was an amendment moved by Mr. Shaw in 1923, respecting the interest rate, and I am told it was struck out by the Senate. I think my memory is fairly correct.

Mr. POWER: I do not think it was carried in this committee. I know I voted in the minority, I voted against the government.

The CHAIRMAN: Well, that is the record there anyway. And I would like to call Mr. Fraser's attention to the last sentence of paragraph 257 of the Macmillan report. It has been stated here that the Macmillan report is not the Bible on banking, but the commissioners make this statement in respect to this very matter:

> The reasonableness of the banks making by agreement charges for services rendered in administering active accounts, when the customer offers no collateral or compensating advantage to the bank, has been recognized by the Bank Act, and rightly so. Any other mode of procedure would result in the shifting of the costs of performing certain services from one class of customers to another class.

By Mr. Perley (Qu'Appelle):

Q. Would you mind giving us the amount of advances to farmers, say in 1929, by your bank?—A. You mean the Royal Bank?

Q. Yes, the Royal Bank?—A. I do not think I can give you that, sir.

Q. Well, in 1933.

The CHAIRMAN: Mr. Logan gave that for his bank.

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Mr. Perley: Just with respect to his bank, not the Royal Bank. I want to get at the farm loans granted by the Royal Bank?—A. I have not got those, sir.

By the Chairman:

Q. Do you segregate them?—A. No, we do not, Mr. Chairman, but I happened to run across, yesterday, a statement that was prepared for the Macmillan Commission last year and that gave our farmer loans in the West, for 1933 that would be, and at that time we had between $15,000,000 and $16,000,000. And that statement furthermore showed—and this is apropos of a statement that Mr. Logan made with regard to his bank on Tuesday—that during the previous twelve months, that is, in 1932, we made fresh loans to 13,600 farmers. Those fresh loans amounted to $2,486,000, and of the $2,486,000 of fresh loans that we made in 1932 we collected $1,540,000.

Q. You mean new money?—A. Yes, sir, new money, for the season's operations. I do not suggest that the difference between $1,500,000 and $2,400,000 was a loss. It is a carry over. At the same time that we collected $1,500,000 from these new loans that were made to those 13,600 farmers there was paid off on old loans $2,500,000.

Q. Could you give the information for 1929?—A. I am sorry I cannot. I just happened to have those figures for 1933.

By the Chairman:

Q. Generally speaking, would you say they were higher or lower?—A. They would be higher.

Q. I mean to-day?—A. No, they would not be higher to-day. I know they would be higher in 1929, for obvious reasons—prices were higher.

By Mr. Duff:

Q. Mr. Wilson, in the statement or brief which you read giving the figures of trade for last year, you made the statement that the country could not be prosperous unless they had a large volume of foreign trade. I would like to ask you as a business man and as a banker how this country, for instance, might increase its foreign trade?—A. I am afraid, Mr. Duff, I know what you have in your mind. I think that is too big a question for me to attempt to answer here. However, I think that Canada in view of the situation of the world, of these tariff barriers and difficulties of trade, and one thing and another, and the difficulty in trading with our big neighbour to the south of us, is doing the only logical thing, to try to facilitate trade between the various units of the Empire.

Q. Well if that is true, Mr. Wilson— —A. As I conceive it, it is a question of making separate and individual arrangements with individual countries in the hope that sooner or later the situation will improve, or that a new generation will come along and knock down the barriers or at least lower them.

Q. I am very much obliged to you, Mr. Wilson, for that statement. That is what I wanted to hear. Then I take it—and I am not speaking particularly of Canada— —A. I am speaking of the world.

Q. In your opinion, as a business man and a banker, do you not think in order to increase world trade there must be a diminution and lowering of tariff barriers?—A. I think that will come, but before it comes, things may get even more difficult.

Q. I am afraid, Mr. Wilson, you are begging a question. I would like a straight answer to a straight question.—A. I do not think I am competent to answer the question.

I also understood you to say with regard to this matter, or to read out of a circular which you issued, I think it was in 1932, that one of the reasons

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for the depression was the excessive high tariffs. Are you still of that opinion?—A. Oh well, as a general statement, yes. There are too many tariffs in the world. I think everybody agrees with that. I said too many, I did not say too high.

Q. You said in that statement "excessive tariff barriers." That would be high tariffs?—A. Not necessarily. It might be that you had a lot of small tariffs instead of a few big ones.

The CHAIRMAN: After all is not this a matter of governmental policy, and do you think it is quite fair to ask this witness to give an expression of opinion on that? I think we are all agreed it is governmental policy. You have your views and we have ours, and perhaps we are not so far apart.

Mr. DUFF: Of course, Mr. Chairman, you may be right and I may be right.

The CHAIRMAN: Order please. We cannot hear a thing that is going on.

Mr. DUFF: In answer to you, Mr. Chairman, I would like to say that this committee is a committee on banking and commerce, and my idea in asking that question is because of the fact that you allowed Mr. Wilson both in his brief and in an article which he read to mention high tariffs and foreign trade. It seems to me I am perfectly within my rights in asking the question. Mr. Wilson has been very gracious and he has answered the question quite satisfactory to me. Is that satisfactory to you, sir.

The CHAIRMAN: Proceed.

By Mr. Duff:

Q. There is another matter, Mr. Wilson, that has been worrying me a great deal in the last few years. That is, the question of exchange. You dealt with that to some extent. I would like to ask you if you could tell the committee—and I have been endeavouring to find out for myself—why there is such a great disparity on certain occasions between say the United States dollar and the Canadian dollar. For instance, as you will remember—and I may say I benefited by it to a great extent myself—two or three years ago the American dollar was worth as high as $1.24 and the Canadian dollar went down to 86 cents?—A. Yes.

Q. Could you give the committee any reason, or any opinion, why that should be?—A. It is not a matter of opinion. On the other hand it is not a very easy thing to explain. It gets down in its essence to supply and demand. When there is a large demand for New York funds the rate naturally goes up, and when the reverse condition applies, the rate goes down.

Q. Well, would you say that the balance of trade would or would not have anything to do with it?—A. Oh, yes, absolutely. That is one very important factor, the balance of trade, the shipping of goods in and out of the country.

Q. Well, if that is true, if the balance of trade has something to do with it, why was it that in 1928, or 1929, when this country was buying seven hundred million dollars worth of goods from the United States and only selling five hundred million dollars worth that the Canadian dollar was at par or perhaps a little better?—A. At that time we were borrowing very large amounts in New York. That gave us the funds with which to help to buy, but you must remember that we have not been borrowing in New York for almost four years.

Q. Does not borrowing come into the volume of business, is not that included?—A. Well, you have two things there, the imports which you refer to of $700,000,000 when we were selling only $500,000,000. What did we do about the other $200,000,000. We did not pay for it, we borrowed it.

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Q. That was the reason then why the American dollar was worth 20 cents more.—A. If we could not have borrowed in New York we would have had to supply the goods.

Q. Well then, pursuing that a little further. How was it last year when we practically balanced our trade although trade, of course, was very much smaller to-day, comparing our figures of to-day with those of say 1928 or 1929?—A. Because now we are like people who borrow, we are trying to pay off what we owe abroad and that imposes a burden on the country because we have to ship out so many bushels of wheat, or so many million feet of lumber, and so on, to pay for excess imports of previous years.

By Hon. Mr. Euler:

Q. Would you mind telling the committe, Mr. Wilson, as to the spread in the matter of exchange, especially with regard to the United States two or three years ago when our money was at a very heavy discount, something like 20 per cent, and as to whether or not the banks actually benefited from that?—A. I can only speak for my own bank, and we can make more money in trading in exchange in a stable market than we can in one that is fluctuating, because we do not seem to be lucky enough to get the breaks. Naturally when you have a high rate and an unstable market you must have a wider margin.

Q. It means you go into the bank and want to sell exchange and perhaps the very same day you want to buy exchange, and there would be a difference of 2 per cent or more; that sometimes has happened has it not?—A. I would say that would be very high. I never heard of that. It is quite possible it may have gone up a point against you when you want to buy, but I do not think there would be a spread of 2 per cent.

By the Chairman:

Q. The charge is made that it has been up as high as 4 on the same day and in the same town?—A. At the same hour?

Q. No, I would not say the same hour but I would say the same day?—A. I would say that would be very extraordinary.

Q. The fact of the matter is, in the case I mention, there was no competition, but if you get enough to the head office you break that rate down, and that is what happened in this case?—A. A spread of 4?

Q. Yes, a spread of 4. I happen to know of a case of that kind?—A. How long had that been going on?

Q. I do not know. I do not think they held to that arrangement very long because men who handle exchange, say in quantity, will break through that cordon, get through to head office?—A. That would be a very foolish thing for a banker to do. It would throw the exchange business into the hands of the public. The man who had exchange to sell would go to the man who wanted to buy it.

The Chairman: They did as a matter of fact.

By Mr. Bowman:

Q. In the matter of exchange, Mr. Wilson, has your bank a branch in New York?—A. Yes, sir.

Q. How often would you clear exchange say between your head office in Canada—which I presume is Montreal—and your New York office?—A. What do you mean by " clear," Mr. Bowman?

Q. How often do you clear exchange?—A. Just let me explain. I am sorry I have got a cold and cannot make your hear, but just let me explain and perhaps that will answer your question. As I explained a while ago every

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bank wants to avoid speculative business, and we all do. We close out our position at the end of the day. Say in Montreal we buy half a million dollars in New York funds. By 2 o'clock that day we have sold $300,000. In other words we are still long $200,000 New York funds. We try to sell them and if our customers do not come in and buy them over the counter our exchange man gets in touch with other banks who may have the reverse position, so that by four or five o'clock in the afternoon we end up the day by having sold all that we had bought, in other words, we have a balanced position. That is Montreal, but the very same thing would be done in New York. That type of thing goes on every day.

Q. Each transaction?—A. Not each transaction but each group of transactions. Every day we try to balance them off, otherwise we would be carrying pounds sterling, or francs; we would be long at night or we would be short. It would be a regular maze, in fact, it would be worse than these tariff barriers we have been speaking of.

Q. Is each transaction in itself at the time when completed, or do they come into the bank and buy exchange or sell exchange?—A. I get say $50,000 New York funds from you to-day; you send some lumber down, and I buy another $100,000 New York funds, and so on. We have importers, of course, as well as exporters. We have textile people who want to pay for cotton, and department stores who want to pay for something they bought in Germany. They are buying exchange from us. The purchases of the importers do not happen to balance what we have bought from the exporters and just as I say we try to get rid of the balance by dealing with other banks.

Q. That part is quite clear, but does it make any difference to your branch bank in New York?—A. The position would be exactly the same in New York.

Q. When it comes to the final analysis the bank makes a charge for doing business?—A. If we did not we would starve to death.

Q. But that is the only difference?—A. Yes, that is it.

By the Chairman:

Q. You actually buy the funds, you advance money?—A. For instance, if we buy New York funds from you in the morning and the rate changes during the day—I do not know what it is at this moment, it may be $\frac{1}{8}$ or it may be $\frac{1}{16}$—the rate may go against me during the day and at the end of the day I may be taking a loss, but the very next day the opposite may be the case; the very next day we might make a profit. It has to work out that way. We could not carry on business at a loss.

By Mr. Bowman:

Q. I asked Mr. Dodds a few questions the other day with respect to advances to farmers for the purchase of binder twine.

By the Chairman:

Q. May I ask Mr. Wilson if it was ever possible to settle our international balances except through New York, and if his answer is "No," why was it, because that is something that has always bothered me, and I have always felt that this country paid tribute to New York in respect to that. Could you give us any information on that?—A. Well, when you say that we pay our international balances through New York that is another way of saying that New York is the financial centre for this continent; when I want to buy sterling exchange, if I cannot get enough from my exporting customers who are shipping lumber, or what not, to England I may 'phone down to New York and buy sterling there; it is a big financial market. You can buy and sell any exchange on any part of the world there. You use New York for the purpose of settling your sterling balances either against you or in your favour. If you have a

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surplus of sterling in London, arising from a surplus of exports over imports, you sell that surplus sterling, say, in New York, and in order to get the money back to Canada I have to go further and find someone who will buy those New York funds.

Q. In other words, there is no open money market in Canada, but there is one in New York?—A. Oh yes, New York is an international money market.

By Mr. MacMillan (Saskatoon):

Q. Would a Central Bank improve that situation?—A. I do not think that would improve it one iota.

By Mr. McGibbon:

Q. Who sets the exchange?—A. The market, just the same as the market sets the price of eggs or hogs.

Q. How is that determined?—A. By buying and selling.

Q. How is it determined in Canada?—A. Well, by the exchange brokers who are going around amongst the banks all the time all day. We have, say, a customer who comes in and wants to buy $100,000 in New York funds, at half past ten in the morning; we have not happened to pick up any by that time so we get in touch with the broker and ask him what he has to offer and he gets on the telephone with the other banks and they say "Yes, we have a surplus." Perhaps their customers have exported quite freely the day before and they have a sufficient amount on hand and they will sell New York funds to us, and if it happens that they have a fairly large supply, well then they may shade the price in order to get rid of it, and we buy.

By Mr. Bowman:

Q. Do I understand that these brokers in Montreal set the rate of exchange? —A. Oh, no. they simply say that they can buy or sell New York funds at $\frac{1}{16}$ or $\frac{1}{8}$, as the case may be.

Q. Does your bank, for instance, instead of going to some broker in Montreal whose business is certainly limited, not go to the Bank of Commerce or to the Bank of Montreal?—A. We do it through the broker.

Q. Why?—A. Because it is more convenient.

Q. Is that the general practice of all the banks to use these brokers?—A. Oh yes, that is the custom. They make a postage stamp out of it, or very little out of it. I have never seen any of them get rich. They would hardly get rich dealing with banks alone. When I say "brokers" I mean exchange brokers.

Q. I quite understand that?—A. There are only a few of them.

Q. Referring then to the question of binder twine, what has been the policy of your bank with respect to advances to farmers for the purchase of binder twine? In the Province of Manitoba there has been quite considerable complaint, in my part of that province?—A. Our policy with respect to making advances to farmers for the purchase of binder twine is the same as that in making advances to farmers for any legitimate purpose. If they are good credit risks, and if there is a reasonable chance of our getting the money back—

Q. That is not quite the question?—A. You suggest that the farmers in a good financial position have been unable to get from the Royal Bank money to buy their binder twine?

Q. Yes, have been unable to go to the bank and get credit?—A. Wherever that is the case it is not because of any policy laid down by head office but because of the action of some stupid manager out there. It is not a matter of policy at all because we do not have a policy for every specific type of borrower who might want to borrow.

Q. Then so far as the matter of security is concerned, take for instance in the case of binder twine, as you well know a farmer must get binder twine at harvest time?—A. Certainly it is no good at Christmas, I realize that.

[Mr. M. W. Wilson]

Q. Otherwise he is liable to lose his crop, but so far as the bank is concerned you are prepared to advance him the necessary money provided the man is a reasonably good credit risk?—A. Yes, if we have got a reasonable prospect of getting our money back we will certainly lend the money for that purpose.

Q. You have no suggestion to make, Mr. Wilson, that there should be special security?—A. I would not think so.

Q. Or that the Act might be further amended so as to give the bank special security?—A. Frankly I have not. I think the other day the statement was made by somebody that the cost of binder twine to the ordinary farmer would be $150 or $160, is that correct?

Q. That would be a fairly large farm?—A. All right, it makes my argument more potent still. If it is only a question of $75 or $100 I do not think it would make very much difference, even if they did change section 88; I do not think it would make the credit risk very much better.

Mr. POWER: Mr. Chairman, it may not be possible for me to be here this afternoon, and I should like, for a moment, to make some suggestion as to what we might do next week.

The CHAIRMAN: Well, on Tuesday we are to hear from Major C. H. Douglas.

Mr. POWER: Well then, I would like to suggest that in the near future we take up number 6, namely, "the relationship between the banks and any of them and the pulp and paper industry, and the extent to which uncontrolled extention of credit brought about over capitalization and over-expansion, and the subsequent disorganization and near bankruptcy of an industry dealing in some of the most valuable of our natural resources," and to that end I would like to call Mr. J. H. Gundy and some of his associates, and Sir Herbert Holt, K.B., Mr. E. W. Beatty, K.C., and other members of the so-called Bankers' Committee, and Price Brothers. I would like to inquire into the question of Price Brothers and I would like to have Sir Herbert Holt here, and some other directors, and my Lord Beaverbrook. The reason why I particularly wish to hear Lord Beaverbrook is based on a letter received by Mr. J. E. Gregoire, now Mayor of Quebec, as counsel of the Shareholders Protective Committee, from Lord Beaverbrook, dated June 5, 1933, as follows:—

> DEAR SIR,—Very many thanks for your letter of May 20, with article enclosed.
>
> I think it is a great pity that Price Brothers was allowed to go into bankruptcy.
>
> I am told the debt to the banks is less than $3,500,000. It is said that $1,500,000 is secured by Aluminum Shares. The balance, I am told, is more than covered by accounts receivable and by newsprint in transit.
>
> The Daily Express is the biggest customer of Price Brothers' newsprint. I think a good bit more than one-third of the output comes here.
>
> The Daily Express accounts are all assigned here.
>
> The Company should be reconstituted. The bank should give the necessary financial support. That is the purpose for which they exist. If they fail to do so, they should not get any renewal of their charters.
>
> In no circumstances can the banks justify the refusal to pay the power bill which resulted in the collapse of Price Brothers. It was bad enough not to pay the interest on the bonds, but the non-payment of power was utterly intolerable.
>
> It seems to me the battle must be fought by the shareholders and creditors in Canada. I am too far away. Besides, I am the company's principal customer.
>
> You know I offered a scheme of reorganization in 1932. It was killed by the Price House bondholders. The banks, of course, supported it. If the reorganization plan had been accepted the company would be alive to-day.

That letter is from Max Aitken, Lord Beaverbrook, and I want him here to explain all about it.

Mr. MacMillan (*Saskatoon*): Before the committee rises, I would like to enquire what Mr. Douglas is charging.

The Chairman: Major Douglas is coming for his actual expenses, not to exceed a maximum sum of $500.

Mr. MacMillan: I understand he asked one of the Western Provinces for a fee of $1,250.

The Chairman: I do not know anything about that. We have made an arrangement with him, out of deference to our friends " to the left " who asked for several witnesses. We have compromised by asking only Major Douglas to come here.

Mr. MacMillan (*Saskatoon*): Well he did ask for $500, did he not?

The Chairman: Just leave it at that, that is the true position. He is coming for his actual expenses.

The Committee adjourned at 1 p.m. to resume at 4 p.m.

AFTERNOON SITTING

The Committee reconvened at 4 p.m.

Mr. Wilson resumed the stand.

Mr. Bothwell: I should like to ask a question, Mr. Chairman.

The Chairman: Yes?

By Mr. Bothwell:

Q. I want to find out, Mr. Wilson what is meant by the term " inner reserves " of your bank; owing to the words being used in the last annual report of the Royal Bank some question has been raised as to what is meant by " inner reserves," and what relation they bear to the other general reserves of the bank?—A. Well, I think the easiest way to explain that is that they are reserves or a contingent account which is over and above the reserves disclosed by the balance sheet. The balance sheet of a bank shows its capital paid up, and its surplus or reserve fund. The banks from time to time accumulated what they call " inner reserves," a sort of special reserve, which is set aside in times of normal earnings to take care of abnormal losses which you run into in bad times. Does that answer your inquiry?

Q. Does that account ever appear in the statement that is filed or published by the bank for the information of the public?—A. As a separate item? No.

Q. Does it appear in the statement at all?—A. It affects the statement in this sense: It is used to write down assets. The theory is this: regardless of how careful you may be in loaning money, there are weak spots in your loans all the time. Sometimes you know them; other times you find out about them next week or next month. It is to take care of what I would call the surprises in your loan accounts that you have this extra contigent account. When you make up the balance sheet you naturally deduct that special contingent account from your loans, and show only the net amount of the loans in the balance sheet.

Q. Is not the general reserve available for that purpose?—A. Yes.

[Mr. M. W. Wilson]

Q. Why, then, the necessity for this other reserve?—A. Well, as I say, it is something over and above. It is an act of extra precaution, if I may term it as such.

Q. Is there any special reason why the public cannot get the information as to what the inner reserves of the bank are, in the same way as they get information as to what the general reserves are?—A. Well, I suppose, one reason is, like so many things in the world, it has never been done. Those things are supposed to be confidential; and the banks guard very jealously the amount of those inner reserves, so called.

Q. In the report of the Royal Bank of November last— —I am not sure whether it was the 30th or the 1st— —A. November 30th.

Q. In that annual report I think the statement is made that you transferred $15,000,000 from general reserves to inner reserves?—A. That is correct, and we stated that we did it to re-imburse our inner reserves for the abnormal charges of the last four years, and in addition to provide extra reserves for anything that may happen in the years to come.

Q. The reason I ask you that question is this: The very expression "inner reserve" has led many people to believe that there is something hidden from the public in connection with banking transactions; and I should like to get as clear an explanation of the situation as I can?—A. Is my explanation clear?

Q. Yes, I follow you as far as you go.—A. Perhaps, in view of what you say, the expressions "inner reserves" or "hidden reserves" are unfortunate. Perhaps we might do as the mercantile community does, call them just a contingent account. As a matter of fact that is how it appears in our general ledger, "contingent account."

Q. If that appeared in your annual statement, there would be no misunderstanding?—A. You would not be asking me. You would just look at the annual statement. As I say, it is not, and never has been customary to do that. Nor do mercantile concerns show the extent of all the reserves that they set up against possible inventory losses and things of that sort.

Q. Where does it appear in the annual statement? Under what item is it included, or is it included at all?—A. Well, if you ask me whether it appears as a separate item, obviously it does not.

Q. Whether as a separate item or not, does it appear?—A. I say it is reflected—I think that is a better term—in the item loans and advances. Because what we do is this, we take the amount of this contingent account and we deduct it from the amount of our loans and advances. In other words, when we have done that we show a certain net amount. We consider there may be possible shrinkage in that particular item. We may be right; we may be wrong. It depends upon the course of business of future years; but that is how that particular item is treated in the bank's balance sheet. That is the way the Canadian banks do it. On the other hand, the English banks show it as a liability. Where you see the item "depositors and other accounts," the expression "other accounts" includes contingent accounts. That, I understand, is the English practice.

Q. Well then, in looking over the bank's statement, where we see the item "loans and other advances" or whatever that item is, we can take it that that particular item includes the amount of the inner reserves?—A. Yes: you can say that represents the amount of the bank's loans and advances, less the amount of any contingent appropriations which may be set up to cover future perhaps, non-ascertained losses. I think that answers your question.

Q. You say "less"?—A. Yes, you deduct it.

Q. Is that correct?—A. Oh yes.

Q. Then that particular item does not convey anything to the public?—A. Why not? It shows what we consider the conservative valuation of our portfolio. It is the gross value less this contingent account.

[Mr. M. W. Wilson]

Q. How do those inner reserves compare with your general reserves?—A. Now you are asking me to disclose things which I stated we never do.

Q. If the question is improper, I am not pressing it.—A. I do not presume to say it is not proper, but I do not feel I could answer it.

Mr. Ernst: It is not pertinent to this inquiry.

By Mr. Bothwell:

Q. The only reason I am asking the question is to clear up any misunderstanding that there may be in the mind of the public that the banks are concealing something. As I take your expression now, in reading a bank statement we can understand that these inner reserves, as the expression was used in your report, are included in the moneys represented in that statement?—A. Yes, surely, it is reflected in the statement, obviously.

By Mr. Fraser (Cariboo):

Q. Do I understand this, Mr. Wilson, that the amount of current loans reported from month to month is not really the amount of the current loan; that you have a certain amount more than that?—A. Well, it is the amount of our current loans, less provision we have made for bad debts.

Q. Then you actually have more current loans?—A. Yes, we would have if they liquidated one hundred cents on the dollar.

Mr. Arthurs: What would that proportion be?

The Chairman: Is not that provided for in the Bank Act?

By Mr. Bothwell:

Q. I take it from your explanation of that particular account, that the bank statement shows the true statement, and that there are no additional earnings that go into the inner reserves?—A. Earnings, no. These are not earnings. Our statements are true, but out of our earnings every year we have to set aside, like a merchant does, a certain amount to cover bad debts because, unfortunately, you cannot run a bank without bad debts.

Q. Due to the use of the expression, the impression has gone forth that the banks have made additional profits beyond what they show, and they have transferred them to the inner reserves account?—A. Well, the profits that we show are what is left after we have provided for bad debts and set up reserves for future losses, income tax and so forth.

The Chairman: May I, for a moment, call your attention to section 53, chapter 12 of the Revised Statutes of Canada, subsection 2, paragraph M, which is as follows:—

> The statement shall include and show the amount of other current loans and discounts in Canada less rebate of interest, after making full provision for all bad and doubtful debts.

As I understand it, the balance sheet is made up on that principle?

The Witness: Yes.

By Mr. Bothwell:

Q. I am not questioning that; I am just trying to find out what that particular expression means, and I think I understand.—A. May I add this, that the banks could not possibly do that because we are like other people. We are subject to the income tax department. They would never let us get away with that. We are inspected and audited by too many people. I may make

[Mr. M W. Wilson]

a mistake in my personal account; but I cannot understand how the bank possibly could because there would have to be a wholesale conspiracy before you could do anything improper there.

Q. I understand the situation now.

Mr. WHITE (*Mount Royal*): I would like to point out that the larger the hidden reserves, the stronger the bank.

By Mr. Arthurs:

Q. The trouble, I think, arose Mr. Wilson, largely regarding the expression "annual reserves after making provision for bad debts"?—A. Regarding the expression "after making full provision—

Q. You might answer it in this way: Is your provision for bad debts adequate or more than adequate?—A. We consider it is adequate.

Q. And more?—A. Well—who can tell? I think it is; I hope it is.

Q. Extremely more?—A. It might be. Nobody can tell. In the banking business you cannot be too conservative in estimating values. If the past four years have taught us anything, it certainly has taught us that.

By Mr. MacMillan (Saskatoon):

Q. Your real reserves have been somewhat strained in the last four years? —A. That is why some of the reserves have been transferred.

By Mr. Ernst:

Q. With your permission, Mr. Chairman, I should like to ask the witness a question or two, not strictly relevant to paragraph 2, but I do not think many of to-day's inquiries have been. Mr. Bothwell has been inquiring into the financial structure of the banks. What I had in mind was the so called management funds, which were disclosed in the United States Senate investigation, which were kept by the American banks, and if I am correctly informed, were distributed amongst the directors in addition to their regular salaries. There is no such fund in existence in the Canadian banks?—A. Absolutely not. If there is, then somebody has been holding out on me. There is no such thing here.

Q. In the second place—I am not asking that any individual salaries be disclosed, I do not think it would be a proper thing to do—how do the salaries of the Canadian bankers compare with the salaries of the United States bankers? —A. I am very envious of the gentlemen across the line.

Mr. POWER: Not at the present time?

The WITNESS: With respect to salaries. Things are on an entirely different basis in this country. First of all, the banks here have not had, and apparently never will have, the opportunity to make money the way they have had on the other side. Perhaps that is why there has never been any management fund. Our directors have never shared in anything beyond what they are authorized to receive at the shareholders' annual meetings. In our case we have 25 directors, and the shareholders have voted them $85,000. That was voluntarily reduced 15 per cent by the directors a year or two ago, when we put in the 10 per cent cut on the higher salaries. Beyond that the directors do not get anything. As for the president of the bank, I think he is about the poorest paid individual in Canada.

Mr. MACMILLAN (*Saskatoon*): He did not get anything like the president of the Canadian National Railways?

Mr. ARTHURS: According to the responsibility which he carries.

The WITNESS: Yes. Mr. Ernst says in comparison with the American banks. I do not know whether our president would appreciate my telling you

[Mr. M. W. Wilson]

this or not, but I do not see why I should not. If I do not somebody else will probably ask him anyway. Our president has been president of the bank for 25 years, and his present salary is $25,000 less a 10 per cent reduction. On top of that he gets what all the directors get, $3,000 or $4,000 annual fees, so that means at the present time he is getting at the rate of about $26,000 or $27,000 a year. He has never shared in any bonus that has been declared, nor does he have his income tax paid, as the other members of the staff have.

Mr. Power: It might break the bank to pay his income tax.

The Witness: He gets just his salary; and I figured up the other day out of curiosity, what he got over 25 years, and the average salary and directors fees was slightly over $14,000. I cannot imagine anybody but a bank in Canada being able to secure a man of his ability for the average rate of $14,000 a year.

The Chairman: The country does.

The Witness: Yes, but there is honour and glory there and there is no glory in being the head of a bank.

Mr. Power: There was until recently.

The Chairman: The country does not pay its public servants enough. . . .

The Witness: I agree.

The Chairman: Including members of parliament.

By Mr. Ernst:

Q. The question I am about to ask you now I do not think is relevant to the inquiry, but it arises out of a question on foreign exchange, which was gone into at some length this morning. I think you told the committeee this morning that the question of parity of our dollar with the United States dollar was determined by several factors?—A. Yes.

Q. Two of which would be the trade between the countries, the balance of trade firstly, and secondly the flow of capital?—A. Yes.

Q. And thirdly, this belongs to the second category, foreign borrowings. I would put that under capital movements? It really falls under the second heading?—A. I will include in there trade balances, tourist expenditures both ways, what the Canadian tourist spends abroad, and what foreigners spend in Canada.

Q. And services, too?—A. Yes.

Q. Services as well?—A. Yes.

Q. In that connection, Mr. Wilson, you were asked, and you told the committee, that there had been extensive foreign borrowings at the time when our balance of trade with the United States was adverse?—A. Yes.

Q. These foreign borrowings are not possible to-day are they?—A. So far as I know the only people who have been able to borrow in New York for the past four years, and that to a very limited extent, has been the Dominion government.

Q. The Dominion government itself?—A. Yes.

Q. These borrowings are strictly limited?—A. Very.

Q. Especially to-day?—A. Yes.

Q. Is there any other way to keep our dollar on a parity with the United States dollar except by endeavouring to balance our trade?—A. Well you must either be able to borrow or you must be able to ship goods. You must do one or the other; you must create credits abroad by exports or you must be able to borrow abroad.

Q. We are now, at the moment, in a situation where practically speaking you cannot borrow abroad?—A. Yes.

[Mr. M. W. Wilson]

Q. Eliminating that, as I think you can do for all practical purposes, is there any other way to maintain your credit abroad excepting to balance your trade?—A. Well, I do not know how you would meet your obligations.

Q. Do you know of any other way, at the same time, of balancing your trade under the present chaotic state of world conditions than by restricting imports?—A. Well, you must maintain a balance, and to do that you must expand exports, or restrict imports.

Q. Or do both?—A. Yes; and that is done automatically.

Q. And a natural weapon for doing that has been the tariff, over a period of years?—A. Well, that is—

Q. I think that is correct; it has been the weapon ordinarily used?—A. Yes.

Q. There may be another. For instance, the inflation of currency, exchange?—A. There may be quotas.

Q. But there are restrictions of trade?—A. They are, unquestionably.

By Mr. Coote:

Q. I regret very much we have not Mr. Wilson's statement in printed form so that we might question him on that statement; I wanted to base some questions on it. I think Mr. Wilson expressed the opinion in his statement that the depression was world-wide?—A. Yes.

Q. I think it would be interesting to the committee, Mr. Wilson, if you would give to the committee, in a very few words, what you consider to be the cause of the world depression?—A. I recall, Mr. Coote, attending a luncheon at the Country Club, Ottawa, when Sir Josiah Stamp was out here on some wheat inquiry. He is a well know economist, and after a very good lunch provided by an eminent gentleman in Ottawa, somebody around the table—and there were quite a few there—asked Sir Josiah if he would tell them the causes of the world depression. In other words, he asked the same question that you are now asking; and Sir Josiah, with a twinkle in his eye, said "In my judgment there are eighteen separate and distinct causes." With that there was general laughter, and we said goodbye and went back to our businesses. I would not attempt to answer that seriously.

Q. Would you care to give us an opinion as to what was the cause of the deflation in Canada; would that be easier, or is it exactly in the same category?—A. Yes; we shared in the general world-wide deflation that took place.

Q. Was it because of the gold standard that we shared in it?—A. I think the gold standard did temporarily break down, but there were many other reasons than that. I think the fundamentals go back to the war. Some of us were foolish enough to think a few years after the war was over, that the war was really over. Well, it is not over yet.

Q. When will it be over; would you care to state when it will be over?—A. Oh, my no; I am not a prophet; I am very humble.

Q. Now, the late Mr. Neill, in an address at the annual meeting of your bank in January, I think, 1931, made a statement: "Countries with fiat money, such as Argentina are not suffering as acutely as the gold countries." Does not that indicate the fact that because Canada was on the gold standard was the reason for the extreme deflation in the currency?—A. That cannot be possibly read into that statement. He simply said, "Countries on fiat currency are not suffering as acutely as the gold countries."

Q. Do you think if we had not been on the gold standard in 1931 we would have suffered as much as we have?—A. In 1931?

Q. Yes.—A. Were we on the gold standard?

Q. I mean, all during this depression?—A. We have not been on the gold standard for quite some time.

[Mr. M. W. Wilson]

Q. Were we not in 1931, January 1931?—A. Well, I have not got dates in my mind. I think it was more in theory than practice. I was not able to get gold, if somebody else was.

Q. What is the chief evidence of a depression, a fall in prices?—A. Undoubtedly, and a slowing down in the general industrial activity of the country.

Q. Would not the attempt to maintain currency at the same level as the gold countries have a tendency to bring down prices?—A. In other words, to keep exchange on a parity with gold countries?

Q. Yes.—A. That would be a deflationary move, yes. In other words, it would tend to keep down prices in Canada.

Q. Would you mind giving your opinion as to which is the more important in Canada, the stability of internal price levels, so far as they can be maintained, or the stability of exchange levels with gold countries?—A. That is a very moot question. I can conceive of nothing very much more important than maintaining a stable internal price level. Now unfortunately sometimes you cannot have both, and you are forced to make a choice. You must either let the price level go and hold exchange, or let exchange go and hold your price level. I think it depends entirely on the situation of the country you are discussing.

Q. Well, take an export country like Canada. I was just trying to get your opinion as to what would be the best policy for Canada to operate.

Mr. ERNST: Why not put the question complete, the export question and debtor question?

Mr. COOTE: For Canada as it is.

The WITNESS: An important factor, Mr. Coote, is the extent of our foreign indebtedness. If you are speaking of Canada you must consider her foreign indebtedness and her ability to discharge that debt.

By Mr. Coote:

Q. We would offset against that the importance of the stability of the price level at home?—A. That would be weighed against the other, and then I say it is purely a question of judgment.

Q. I think you stressed this morning the importance of the export trade in Canada?—A. Obviously.

Q. I did not quite get the figures, but I think it would be safe to say that there was a great falling off in exports in 1927 and 1928.—A. I think I gave five years. I think the first year it was something like $1,300,000,000 and it got down to $500,000,000 in the fifth year.

Q. There was a steady decline anyway down to 1931?—A. Oh yes, but that was common to the whole world, of course.

Q. I notice in an article written by Prof. Copland in regard to Australia, he said:

> Export production was expanded by more than 25 per cent in the year 1931-32 and 30 per cent in 1932-33 compared with the three pre-crisis years.

—A. He is speaking now of Australia?

Q. Yes.

Mr. ERNST: Is he speaking of volume or value?

By Mr. Coote:

Q. He said:

> Export production was expanded by more than 25 per cent in the year 1931-32 and 30 per cent in 1932-33 compared with the three pre-crisis years.

—A. Well, is that quantity or is that price.

Q. I take it he is speaking about quantities.—A. You think he is?

Q. Yes.—A. I take it that they had a big wool crop and a big wheat crop.

[Mr. M. W. Wilson]

By the Chairman:

Q. Is it volume or price?

Mr. COOTE: It does not say here. I think he would mean the volume.

By Mr. Coote:

Q. I was just going to ask you, Mr. Wilson, if you think that Canada's volume of production was anything like as good as Australia's, when he says it was that much greater than it was in three pre-crisis years?—A. I do not see that there is anything I can express an opinion on. If there has been a production increase that is a question of fact. My opinion would have nothing to do with it, Mr. Coote. Perhaps I missed some point there.

Q. No, we are discussing the whole question, I think, of policy during the adverse years. Our policy, I think, has been distinctly different from Australia's, and I am just trying to find out whether we have followed the right policy.—A. I would say as an outsider—and I hope I am not trespassing on governmental grounds now—that our policy has perhaps been less spectacular. To say that it has been very much less effective than Australia's, I do not agree with that. I looked at the price level in Canada and Australia and I noticed that compared with 1929 the price level in Australia in 1934 was something like 79 whereas in Canada it was 75. To my mind a difference of 4 per cent does not mean a very great difference in conditions in the two countries.

Q. You say our price level was 75?—A. I am speaking from memory now. I think I have the figures here.

Q. I think the general manager of the Bank of Nova Scotia gave a different figure. One manager gave the figures as 66·7 in 1932.—A. I have the average price level for 1929. I also have the price level for January, 1934. In Canada the 1934 price level is 77·9 and that of Australia 79·7.

Q. Of course, our currency is much closer to Australia's now than it was during most of this time.—A. Yes.

Q. Have you the figure for 1932?—A. No, but I have the figure for 1933. The percentage on the same basis, in Australia was 75 and Canada 67 per cent. The difference was a little more marked then.

Q. We were down about 60 in 1932.—A. In March, 1933, we were 67·4.

Q. Could you tell us how the exchange rate was maintained in Australia, that is, the exchange rate between sterling and Australia currency?—A. Well, you probably know. It was done through the government by their Central Bank. They call it a Central Bank; it is not.

Q. Then if Canada considers it advisable to maintain and support the exchange rate I suppose a Central Bank might be of use to us in that regard?—A. You do not need a Central Bank to do that. I am rooting now for the Chartered banks.

Q. Do you think it could have been done during the last two years?—A. If Canada had been able to get credits abroad, and if she were willing to risk the necessary amount—and I do not attempt to say what the amount might be—she might have tried; other countries tried though they all did not make a success of it.

Q. I have not heard that Australia risked any amount in doing that.—A. Oh well, you must remember there is an obvious risk in doing that.

Mr. ERNST: Were not Australia's borrowings mostly in London?

By Mr. Coote:

Q. Her borrowings were largely foreign. A bigger percentage of Australia's debt, I believe, was abroad, more than in the case of Canada.—A. Yes, but it was all in one place and in friendly hands in London. That made a big difference. London was ready to co-operate in any policy that Australia was ready to carry into effect. I would not like to go to New York and try to do what Australia did in London, and I have my share of nerve, too.

[Mr. M. W. Wilson]

Q. Australia, I believe, was able to meet all her interest without any difficulty in Great Britain?—A. Oh yes, she got her interest rate cut down by agreement.

Q. I understand the Commonwealth took over all the State debts?—A. Yes they did at one time.

Q. And their currency was at a discount of 30 cents in Britain?—A. Yes.

Q. Which brings us down to the question of how foreign payments are made and the thing has been pretty well discussed in committee, but our foreign obligations if they are paid are paid with goods, or services, or tourist expenditures?—A. Yes, but there is the old problem of seeing that the Canadian proceeds get into the hands of the people who have to pay the debts. It is not quite sufficient to have a certain amount of money come to Canada and land in the wrong hands.

Q. I have a feeling, Mr. Chairman, that the problem of meeting our debts in New York has been somewhat exaggerated, and I wonder whether I might be permitted to question Mr. Wilson just for a moment on that point.

The CHAIRMAN: Go ahead.

By Mr. Coote:

Q. In the monthly letter of your bank for March, 1933, there is a quotation from an estimate, made by A. E. Ames & Company, of Canadian payments to be made in the U.S. during the year 1933?—A. Yes.

Q. Those, I should say, payable in New York funds. The total amounts to $266,000,000. This is what the monthly letter says:—

> The combined total of these payments amounts to 266 million dollars. Of the 109 million dollars of maturities, a fair estimate might be that 25 million dollars is domiciled in Canada, and of the interest payments it is estimated that about 75 million dollars will eventually come to Canadians, thus reducing the net payments due in the United States during 1933 by about 100 million dollars and leaving an approximate amount of 166 million dollars payable in New York.

That does not seem a very large sum to have to meet in one year, does it, for a country like Canada?—A. It looks like a very substantial amount to me, Mr. Coote.

The CHAIRMAN: Mr. Coote, have you ever had any Canadian bonds payable in American funds, and if you have did you not invariably put them in the bank and collect the premium?

Mr. COOTE: Mr. Chairman, I do not think I ever had any.

The CHAIRMAN: Then if any of your friends ever had, what did they do?

Mr. COOTE: The Dominion of Canada bonds I hold, I think are payable in Canadian funds. At any rate, I never got anything but Canadian funds for them.

The CHAIRMAN: As a matter of fact, the whole commitment has to be arranged in terms of the gross amount. I have never found any Canadians yet who were patriotic enough to forego the premium.

Mr. COOTE: If I may be permitted to answer you, Mr. Chairman, I know of some Canadians who hold bonds payable in New York funds and they have said they would be glad if the government made a rule that Canadians had to accept Canadian funds.

The CHAIRMAN: I think the rule has been the other way.

Mr. COOTE: However, that is a matter of government policy.

[Mr. M. W. Wilson]

By Mr. Coote:

Q. I would like to ask this question of Mr. Wilson, as a practical banker, whether the Canadian people could have met that 166 million just as easily if our currency had been brought to the same level as Australia's?—A. I would say that this is a hypothetical question, and the answer must be considered accordingly. A depreciation of our currency in terms of, say, American would make it that much more difficult for Governments to pay their debts in the United States. The apparent benefit of a depreciated currency is realized by those who produce for export. Therefore, if the various Governments throughout Canada having obligations abroad collected sufficient additional taxes from those who produced for export, the services of governmental debts abroad could doubtless have been maintained. This answer does not apply to certain private corporations whose income is in Canadian dollars, and who for various reasons cannot increase that income to offset the additional burden of their foreign obligations.

Q. I suppose you would agree that we could have held prices at a higher level in Canada if, in 1930, we had abandoned all attempts to maintain parity with gold as Australia did?—A. Oh, I think it could have been done, yes.

Q. And would that have been a good thing for the banks?—A. If we were willing to take whatever consequences would flow from it.

By the Chairman:

Q. What were the consequences which would have flowed? Do you not think the public are entitled to an answer to a question like that? What would have been the consequences, would it not have been the ruination of our foreign credit?—A. Well, it certainly would have hurt our credit, there can be no doubt as to that, and then it would have increased the burden of the foreign debt on the Federal Government, Provincial governments and Municipal governments, as well as on private corporations that much more; that is, it would have made it that much more onerous. According to your theories—and I say this with all respect, Mr. Coote—you would argue that they could be equalized by the governments, Federal government, Provincial and Municipal governments taking to themselves some of the increased money that the farmer got in Canadian dollars for his wheat or that the Canadian lumberman got for his lumber, or any of the products that we export?

By Mr. Coote:

Q. The fisheries or the mines?—A. Yes. If it could be done that way probably we would have gone on and paid our debts abroad, but that involves almost a major redistribution of wealth within the country and a tremendously dislocating process. How could you get it from the farmer except by putting more taxes on him.

Q. Do you not think we have had a very dislocating process?—A. It certainly has been bad enough.

Q. It has caused the banks to hold a lot of farm paper they could not collect?—A. Undoubtedly, not only farm but other paper too.

Q. Yes. And, therefore, I come back to my question again, would this not have been a better thing for the banks if we had maintained prices at a higher level by allowing our dollar to depreciate?—A. Well, that is a matter of opinion, and no two minds will agree entirely on it.

Q. I am just speaking from the standpoint of the banks at the moment?—A. I would have liked, other things being equal, to see a higher price level, because it would have made it easier for everybody that owed me to pay me, and that is one of my chief objectives in life.

Q. I want to look at this from every angle. It would have kept your loans in better standing, would it not?—A. Yes.

Q. Therefore, if it affected the position of your depositors at all it would have made the deposits safer rather than anything else?—A. It does not affect our deposit liability, because you pay your deposit liability; in the kind of money you get from the people you lend money to.

Q. But if the price level becomes too low you may not be able to get back all your loans. We have a lot of commodities in Canada on an export price basis?—A. Go on, I do not understand what you mean.

Q. Such as wheat?—A. That has a world price?

Q. Yes?—A. Oh certainly.

Q. And the total received for the sale of these commodities would have been very much greater because the increased price would apply to the produce that we consumed in Canada as well as outside?—A. Yes. You take nickle. If our currency had depreciated even more than it has, in terms of Canadian dollars, we would get more for each pound of nickle, but that does not tell the whole story.

Q. And that would give more employment would it not?—A. It might or might not.

Q. And would have saved some of the employment relief expenditures?—A. Oh no, it is not quite as simple as that. It gives the exporter more money initially but what has he at the end of the day if he has to pay additional taxes; that is the question, is it not? In other words, it is the net result. It is not what he starts with in the morning but what he ends up with at night.

By Mr. MacMillan (Saskatoon):

Q. Would that type of dollar be more useful than any other type of dollar in Canada?—A. It would be less, it is less valuable, that is the theory.

By Mr. Coote:

Q. If it were necessary, I could quote from Australian statistics to show the cost of living is very much lower there after three years of experience of depreciated currency than it was in 1929 although the price of export commodities was very much higher?—A. But, of course, their economy may be different from ours. You quote Prof. Copland. I had the pleasure of hearing Prof. Copland in New York sometime ago for three hours. He tells a very interesting story, but I could not go into raptures over anything he told me, and after I got home I began to think that we had done many of the same things in Canada but we had given them different labels.

Q. Have we lowered interest rates to any extent?—A. We have lowered them some; it is a slow process.

Q. Two years ago, I believe, interest rates stood at about the highest point they had been since the war?—A. I would not be surprised. Four years ago they were the highest in the history of the world I would say.

Q. Do you believe that times of depression are inevitable?—A. It seems like it unless you can change human nature.

Q. Are they natural phenomena or are they man made?—A. I think they are natural phenomena. If we could all think intelligently why you would get somewhere, but as a normal impulse we go with the crowd, and if the crowd is right why conditions are all right, if not, it is too bad.

Q. You admit it would be a very worthy thing if we could give a little more support to the economic structure.—A. I think it would be a wonderful thing.

Q. In your monthly letter— —A. I will have to cut out that monthly letter.

[Mr. M. W. Wilson]

Q. I will not pursue it any further, Mr. Wilson, if it embarrasses you any.—A. I am not embarrassed.

Q. I think they are the best monthly letters published in Canada.—A. It is very nice of you to say that. I do not write them, I censor them; that is all I do.

Q. The late Mr. Neill, I think, was the most enlightened bank manager in Canada— —A. I know no better.

Q. He said, in his address, in 1931, that he did not believe that these times of depression were of natural phenomena like the tides and the phases of the moon, and that they could be controlled.—A. Well, what he would mean, if you are quoting him exactly, would be—

Q. He was speaking in a world wide sense of co-operative action by Central banks.—A. In other words, if you believe the world is making progress you must believe in the increased knowledge that comes with time and therefore we will learn how to cope with these things better.

Q. I thought that up until the last two or three years but now I am beginning to wonder. Now, Mr. Wilson, coming back again to something which you said this morning about the necessity of the banks getting some of their loans in better shape, that is, compelling some of the borrowers to pay up because you must always keep in mind the fact that your depositors might demand their money.—A. We must keep their funds safe, in so far as it is humanly possible to do so, yes.

Q. In order to meet their demands.—A. Surely; that is fundamental for a banker.

Q. This question I am going to ask you is like some that have been asked before. I have been asked repeatedly by some of my own constituents, and it is this: They say there is on deposit at the banks, by governments, and in the savings banks and current accounts approximately, according to this statement, $1,900,000,000, or thereabouts?—A. Yes.

Q. And the amount of Dominion notes which the banks carry is $134,000,000, gold and other coin in Canada would be $39,000,000 roughly a total of $173,000,000, and these people say how could the banks pay everybody in real money. I said yesterday that deposits were money but that was not accepted by the committee. How could the banks pay the depositors in money.

Mr. Ernst: I suggest you ask the Minister of Finance how the Dominion would do it.

The Chairman: Or anybody else.

The Witness: The whole theory of banking, Mr. Coote, is built up on the assumption that everybody is not going to go crazy at the same moment. We saw what happened across the line. I would like to elaborate a little. I mean that if every man that puts money in a bank on deposit thinks that he and everybody else in the country can come round to-morrow and get out 100 cents on the dollar he is wrong, because it is physically impossible for any bank to realize on its assets in twenty-four hours. It takes reasonable time to do that. If they kept themselves in a position to perform miracles they would not be any good to the country at all, they would be just a cold storage plant and a much colder storage than any cold storage plant you and I know about. We saw what happened in the States. They all decided that they wanted to get their money. They had gold reserves down there unheard of in the history of the world, yet what happened? The banks closed down solid, everyone of them. To the everlasting credit of Canadians be it said that while all that was going on there was absolutely not a ripple in Canada from one end to the other.

Q. You said that if that were true the banks would not be of any use?—A. Why no.

[Mr. M. W. Wilson]

Q. To the country or to industry, which did you say?—A. To the country, the same thing. Industry is the country.

Q. The banks a short time ago, I think, had almost as much of their funds in bonds of various kinds as they had in current loans.—A. Well, we must employ funds, and we invest them in bonds. In other words, we loan them to the Dominion of Canada, or to Provincial governments, or to cities.

Q. Does not that indicate that industry perhaps is being compelled to go with insufficient finances?—A. No, not at all, that does not follow. It simply shows that industry does not need as much money to finance its business to-day as it did three or four years ago on account of the low price level and the lessened activity in industry.

Q. Do you think that the decline in loans has anything to do with the low price level?—A. I would not say it was a cause. I would think it is 90 per cent effect, and I am trying to be fair in that.

Q. Take this statement, from an orthodox source:

> The decline in loans and deposits is both a cause and effect of depression.

That is published by the National City Bank. Would you agree with that?—A. I just said it.

Q. 90 per cent though?—A. Well, I will say 90 per cent, that the decline in loans is 90 per cent effect and not cause.

Q. Well, that is the best admission we have had yet.—A. Well, I hope it is not too damaging.

Q. I had hoped that you would admit more than 10 per cent.—A. It is only a guess, Mr. Coote, it cannot be anything else.

Q. We have discussed here several times, Mr. Wilson, the question as to whether all industries were required to reduce their loans to the same extent, and I think you brought a statement here showing the total loans in Canada and the reduction which took place as compared with the aggregate amount of loans to directors and firms of which they were partners during a stated period in the two years from 1930 to 1932, on March 31st in each of these years, call and short loans in Canada fell by $100,000,000 or 43 per cent. I think that is approximately correct.—A. It sounds familiar.

Q. Other current loans in Canada fell $276,000,000 or approximately 20 per cent, but loans to directors and their firms actually showed a slight increase. They stood at $20,747,000 in 1930, and, in 1932, I think, they stood at $20,828,-000. I just wondered whether that did not indicate that the man who was a director of a bank, perhaps, was not required to consolidate his loan quite as quickly as some others.—A. Oh no, I would not say that at all, Mr. Coote. The borrowings of the directors of Canadian banks are very small in the aggregate when you have regard to the substantial business interests that they represent, I think something like 1 per cent of the total loaned, 1 per cent or 2 per cent. And in so far as you use the term "forcing people to reduce" during the past few years, that expression has been used in this room a great deal in the last session, and I think there must be a misapprehension in the minds of a great many people. If I were not a professional banker and were listening to the evidence here, I think I would get the impression that most of a banker's day was spent in hounding people to pay back their loans. That is the thing we are in business for, to make loans. That is one of our biggest problems to-day, to keep our funds employed. If you know any good commercial business I can get I would appreciate it very much if you would tell me and I would go after it, even to stealing it from my competitors if I could do it. Take the grain people out West, the elevator companies, Mr. Logan elaborated that point very well indeed, and these things are so obvious when you think of them that I feel ashamed almost to refer to them.

Q. If we have inadvertently used the term "forced," it is, perhaps, because it has been used so often in our hearing by our constituents.—A. Undoubtedly there are cases where action has to be taken but they are not in the majority, not by any means. Take manufacturing concerns, lumbering concerns, pulp and paper concerns, coal companies, their businesses have fallen off and they are carrying smaller inventories. We did not have to put pressure on them to reduce their borrowings.

Q. That is the reason why I have wondered in the last three years why the bankers did not make representations to the government to keep up price levels? —A. Bankers are very diffident about making suggestions to the government.

By Mr. Irvine:

Q. Since when?—A. Always.

By Mr. Coote:

Q. That surely was not so ten years ago?—A. I do not know to what you are referring.

Q. Well, I will just put one question to you. Could you not lend some more money, for instance, to grain companies, to meet the rates that they are being offered in New York? I asked Mr. Logan about that.—A. In other words, you refer to some grain man that went down to New York and borrowed money at 3 per cent? I cannot meet that rate because my money costs me more.

Q. You say you have lots of money to loan?—A. I cannot lend one man money at 3 per cent, becauses if I did everybody would want the same rate of 3 per cent and I would go broke. As a matter of fact, we are functioning now on a very narrow margin.

Q. Then I would like to ask you about interest rates in eastern and western areas, as to how they compare, and particularly in regard to municipal loans? I understand that banks, as a rule, charge more interest on municipal loans in western Canada than in eastern Canada?—A. Well, there is a slightly higher rate in the west than there is in the east, for the reason that the banking business is more thinly spread out in western Canada than in the East by reason of population and geography and, therefore, our overhead, our expense of doing business, is slightly higher out there. We have to get it somewhere some way and that is one way of getting it, by charging a little higher rate of interest; but it is very slight. I would say it would not average one-half of one per cent, and the tendency in the last year in particular has been very much that of going down.

Q. There were three reasons given yesterday. I think you were in the committee at the time?—A. There were three?

Q. There were three reasons given why interest rates might be higher? —A. Out west?

Q. In one area than in another, and one of them was the reason involving the risk of loss?—A. That is a factor, of course. Unfortunately that was not true until a few years ago, but you know the condition of a number of rural municipalities out west at the present time, a great many of them are able to finance only on the credit of their provinces; that is an indication of the condition of the credit risk.

Q. Well, I have this statement with regard to the indebtedness of the municipalities in difficulties both east and west. The total for Alberta was $400,000 compared with $15,000,000 for Quebec and $100,000,000 for Ontario.

I think that the fairest way of judging the standing of a municipality would be on its total debts and bank dealings, and bonds that are outstanding? —A. Yes, but there is an answer to that. That has been a very recent development in the east. Until a year or so ago, a municipality defaulting in the east was an absolutely unheard of thing. Look at the situation we have now. We thought that the credit risk was better in Ontario than Alberta.

[Mr. M. W. Wilson]

Q. Do you think we have any reason to anticipate municipal loans in western Canada may be made on as low a rate of interest as they are in the east?—A. I think that is the tendency, yes; I think they are getting closer together all the time.

Q. Don't you think the banking industry should be looked upon as a sort of national institution, and the municipalities in one area should be entitled to as good a rate as those in another?—A. We have to face facts. When all is said and done, we have to balance our budget, just as you try to balance budgets down here. We cannot put out on one side what we do not take in on the other. We have not got any gold mine in our backyard. We trade on a very narrow margin.

Q. You have some large municipalities in eastern Canada that you could make some money out of, if you raised the rate of interest one half of one per per cent?—A. You try to get it from them.

Q. I have not time to go further into the question of interest, although I think it is a very burning one just now?—A. So do I.

Q. I think I read that the Royal Bank had some bonds of the city of Calgary which were payable in New York funds, and at one time you agreed to accept.—A. Are you going to try to spoil my trip to Ottawa now?

Q. No, not at all.—A. Go ahead.

Q. If I remember rightly, I was told that the Royal Bank agreed to accept Canadian funds, and afterwards refused—A. That is not right. Do you suggest we went back on our agreement. We did not do any such thing.

Q. Did you agree to accept gold in Canada, and later on changed your mind?—A. No, we were never offered gold in Canada. We had bonds of the city of Calgary which we bought down in New York with New York money, and when they were due they were defaulted down there. We were offered a payment in Canadian funds, which were then at a discount of 15 to 20 per cent. We held them a long time. Some people who were in the same boat sued the city of Calgary. We did not, because we did not want to sue a Canadian city. We finally compromised, and a rotten compromise it was from our point of view; and a lot of thanks we got.

By Mr. MacMillan (Saskatoon):

Q. Did you lose some money?—A. We got paid in Canadian funds as against American funds we had invested in them; that is the difference.

By Mr. Coote:

Q. I suppose you could get cash for them now if you had them?—A. We have not got them.

Q. I understood you had been offered Canadian funds and had agreed to take Canadian funds or gold in Canada?

The CHAIRMAN: What would be the object in pursuing this line of investigation?

Mr. COOTE: I am trying to get the policy of the banks during the last three years.

The WITNESS: Do you suggest that we went back on our deal with Calgary?

By Mr. Coote:

Q. I am just asking; that is what I heard.—A. I understand. You were misinformed, absolutely.

Q. I have a letter here from a man in Vancouver, complaining of the practice of the banks now in taking such large amounts from customers' accounts for the handling of those accounts. You discussed that matter this morning?—A. A service charge?

[Mr. M. W. Wilson]

Q. He says in one case a certain bank in that city secured enough by this means to pay the salary of their entire staff. Do you think that would be true? —A. No; that is absurd.

Mr. MacMillan (*Saskatoon*): Should we not have the name of the party who makes those complaints?

The Chairman: Is that worthwhile? It is the principle involved.

By Mr. Coote:

Q. It is the principle I want to get at. I want to find out to what extent it is used to finance the banks. I have a letter here from a man named Mr. Penny —I will give you this man's name—unfortunately Mr. Wilson we are in this position; we get a great many letters from people and they say, "I wish you would inquire into this, but do not use my name, I might not be able to get any more accommodation at the bank?"—A. Of course, you realize that I am at a disadvantage, because my relations with my customers are confidential. I cannot tell you all the things I know. That is the unfairness with so many of these things, in the complaints that are made.

> " Q. I contend that the obtaining of such signatures—an act which has been declared illegal by the Supreme Court of B.C.—should not be binding upon the party so signing."

A. What does he mean by that?

Q. I wondered if you knew anything about the case that had been decided in the courts of British Colmubia; that a man was not bound by some authorization form he had signed?—A. That is too vague; I do not recognize anything.

Q. You do not know anything about that?—A. You do not give me enough information.

Q. I would be glad to give you this letter?—A. If you give me the letter—

Q. I would be glad to give you this letter and let you look over it at your leisure?—A. Surely.

Q. I do not want to take up the time of the committee now.

Mr. Ernst: It often happens that persons are not bound by a document they sign. For instance, a married woman, in Quebec, is not bound by a signed document, very often.

The Witness: They always claim they never read the document.

Mr. Ernst: As a matter of fact you compel them to get independent advice.

The Witness: Even then it is not of much value.

By Mr. Coote:

Q. I have been asked to question some bank managers on the charge that is made at the Ottawa Clearing house, and passed on to a customer of a bank, a charge of fifty cents for each cheque that is deposited by him for which there is not sufficient funds?—A. Fifty cents.

Q. After it goes through the clearing house?—A. That sounds like a large charge.

Q. There is a printed form, and I was wondering if head office were familiar wth the practice?—A. I know it is customary to make a charge for the handling of what we call N.S.F. cheques, because obviously we have to take them into the clearing, get them sent out to some subsidiary branch, get them back, and so forth. We have messengers travelling around the city. We are like other people; we have to be paid for services we perform.

Q. You do not know whether that is a general practice?—A. No, I do not know just offhand. Fifty cents strikes me as being a very large charge.

[Mr. M. W. Wilson]

The CHAIRMAN: Is it paid by the drawer of the cheque, or the customer who deposits the cheque?

Mr. COOTE: As I understand it, it is a charge made on the customer who deposits the cheque.

The WITNESS: On the drawer.

By Mr. Coote:

Q. Sometime before the hearing is over, I wish some of the banks would advise us in regard to these matters. My next question is whether your bank gives managers power to allow customers to borrow either on overdraft or do they insist that no matter how small the borrowing is, it must be covered by a note?—A. We much prefer, that all loans be made on notes, because it is a more definite document. A man signs an obligation to pay a specified amount at a specified day, and that, from the standpoint of the banker, is a much more satisfactory thing than an overdraft which has no maturity. Sometimes an overdraft is created through a mistake; and when it is drawn to the attention of a customer, he says, "I do not know about this." It only creates trouble. To establish your claim through an overdraft, you have to go back to the beginning of time, almost, to prove your claim. If you loan a man, by means of a note, he signs the note and your claim is based on the note. Furthermore, that is a more formal way to borrow, and a better way. If I am loaning you money, I would prefer you came in and asked me for $1,000, told me what you wanted it for, and how long you wanted it, and then we would make out the note and you would sign it, and that is all there is to it.

Q. I understand it is better for the bank to loan that way because of the interest they collect?—A. What is that?

Q. That way much better for the bank because they collect more interest? —A. You are thinking now and talking as an ex-banker. There is a slight advantage there, but the other is the more important reason. We do not tell our managers not to grant overdrafts. Every branch has many overdrafts.

Mr. DODDS: I have read this clearing house form, Mr. Coote, and it says on the bottom that this charge of 50 cents is against the man who draws the cheque when he has no funds. That is not for collecting, and it is against the man who will draw cheques and who has no funds to his credit.

The CHAIRMAN: Is it not charged back to the depositor, and he has to collect it from the man from whom he has the cheque?

Mr. DODDS: It is not the depositor; it is charged to the man who draws the cheque.

Mr. IRVINE: It makes no difference, its a heavy charge.

Mr. DODDS: It is to stop a customer from drawing cheques for which he has no money.

Mr. COOTE: I see there is some printing on the back of this form which I have not read. However, I am glad to have the opinion of the bankers with regard to the amount of this charge.

Mr. ERNST: It is made at the clearing house to the bank, and the bank passes it on to the customer who has drawn the cheque.

By Mr. Spencer:

Q. I have a few questions I should like to ask the witness. I was going to ask some questions with regard to the inner reserves, but that has been well answered by the questions of Mr. Bothwell. I should like to refer Mr. Wilson to the Macmillan report, section 11.

[Mr. M. W. Wilson]

The CHAIRMAN: What page?

Mr. SPENCER: Page 12, section 11 of the introductory remarks.

The WITNESS: I have it, sir.

By Mr. Spencer:

Q. It starts in—it begins about half way down with the words " The commercial banker has very properly in the past regarded his responsibility as mainly confined to safeguarding the interest of his depositors and shareholders and to making judicious loans and investments with the funds entrusted to him. But it is now coming to be realized that other less obvious but also important responsibilities rest upon the banking system of a country. It must bear a share in trying to maintain stability and to regulate the quantity and flow of credit; it must interest itself in price levels, in the fluctuations of exchange, in international monetary co-operation—in short, in all the matters which concern international finance. In judging of the adequacy of a modern banking system, its ability to lend assistance in these wider spheres of action, must be taken into account." I should now like to ask your opinion with regard to that?—A. Of course, in making that statement the commission are just building up a case for the Central bank. That is obvious, is it not?

Q. Yes, very. It seems to me that it is because possibly our banking institutions have not fulfilled their obligations in the past, there must be a central bank?—A. The chartered banks of Canada have not fulfilled those obligations in the past because they have not been imposed on them. We have no particular responsibility for the price level, or for the exchange rates between Canada and abroad. As I said, or tried to say in the short brief I delivered this morning, that is something for governmental action or some body very close to the government, meaning, of course, the Central bank.

Q. In that way you would not be opposed to the Central bank?—A. I did not say that, but if you ask me, I am not and never have been.

Q. One point which the banks appear to be making plain is that there has been very little working together; each banker has gone on his own responsibility, and has done what he thought best. Now, it does seem to me it proves the necessity of some co-ordinating agency like a central bank?—A. We have all worked—

Q. To carry out these matters?—A. We have all worked independently in the sense that there has been no co-ordinating body with respect to policy. In actual practice though, we have all done pretty much the same thing for the same reason that the four corner stores in a small town will naturally pursue pretty much the same business policy. Competition regulates a thing like that. I could not pursue a policy that would drive my customer away to another bank and hope to survive. As I say, as a matter of practice, it gets down to us all doing pretty much the same thing without our going through any formal means of getting together and creating a body along that line. In other words, there are certain things that seem just common sense to a banker, and he follows that lead.

Q. With regard to the development of business, bankers have the power to increase the amount of money through the aid of created credits in circulation, I take it?—A. Yes.

Q. The bankers have, I take it, two ways of doing this. Would I be right in saying that one way is to put more money into circulation? When I say " money " I mean anything that functions as money?—A. I understand.

Q. By making loans?—A. Surely, that is the way it happens. As business gets better, we make more loans, and in that way more money is put in circulation.

[Mr. M. W. Wilson]

Q. What happens when a bank buys securities?—A. That puts money into circulation. Buying securities is another way of loaning money to a government or a municipality.

Q. Would I not be correct in saying that there are two ways of reducing money, writing money out of existence?—A. I do not follow you; I do not like that.

Q. I will try to put it in words you do like.—A. All right. I do not want to quibble. You are so clever I am afraid you may put words in my mouth I won't understand.

Q. Not to a clever witness like you. It is recognized under our banking system that money—and of course it is right—should be and can be increased from time to time to take care of business?—A. Surely.

Q. Out of all proportion to the deposits that are there at the time?—A. Out of all proportion?

Q. Yes.—A. You are contradicting yourself. You laboured the point the other day that deposits were money. I accepted your definition because it was as good as any.

Q. I say anything that functions as money is money.—A. I accept that.

Q. Let me put it this way: Suppose we had a billion dollars in Canada?—A. In deposits and notes outstanding?

Q. Everything there is?—A. Yes.

Q. And you wanted to increase that on account of the amount of business that was being done, by another half a billion. Now, is it possible to do that?—A. Surely; if we have cash reserves why we expand our loans and other banks expand their loans, and the first thing you know you have got that much more money in circulation.

Q. And the creation of the loan does increase the total amount of money in existence?—A. It increases it, if you refer to the banking system as a whole; it does not apply if you take an individual bank.

Q. I am speaking of the whole. Now, there are two ways which I have just suggested to you of putting money into existence?—A. Yes.

Q. And the two ways of taking money out of existence, I take it, would be by calling in loans, and therefore cancelling them when they are paid?—A. The payment of a loan, of course involves a reduction in deposits to a corresponding extent.

Q. Thank you; and the other way would be, I take it, by selling securities? Would that be correct?—A. Yes.

Q. If money is advanced or put out, out of proportion to the goods purchased, it would have a tendency to increase prices?—A. I do not see how you can put out money that a commercial community does not want.

Q. I admit that is— —A. We are ready and anxious to loan money now.

Q. The banker has not the final say?—A. It is the borrower that comes to the bank; the banker does not go to the borrower.

Q. The banker cannot force money on the people?—A. They are trying to do it in the States, and are not successful.

Q. They can be a very active agent in calling in loans and reducing the sum total of money?—A. Undoubtedly, yes. If we do that, unnecessarily, we are fouling our own nest.

Q. Therefore, I may say that we may not blame the banking institutions for inflation so much as we may blame them for deflation?—A. Yes, but then you are asserting things; you are asserting the banker brings about deflation. I deny that.

Q. I will agree with you partially; I don't give you all the blame.—A. Well, I should say that the banker's responsibility for deflation is a very very small part. Mr. Coote covered that, and quoted the National City bank. They suggested that the proportion of blame was 90 per cent and 10 per cent.

[Mr. M. W. Wilson]

Mr. COOTE: For the correction of the record, I did not say 90 per cent was mentioned in the National City bank quotation I gave.

The WITNESS: I see, I am sorry.

By Mr. Spencer:

Q. I have in my hand one of your most excellent monthly bulletins.—A. There is a catch in this; go ahead.

Q. Now, this refers to the control of credit and what might be done by the banking system. It struck me very forcibly, and I should like to have your opinion. It is the June number.—A. This year?

Q. 1931?—A. Yes.

Q. Quoting, "This is surely a counsel of perfection not fully attainable in human affairs, but it is clearly within the power of the great central banks, through appropriate interest rates, and open market policies, to control within reasonable limits too rapid increase in the volume of credit and also to prevent contraction of the normal growth of credit, which is the basis of the present world tragedy."—A. I agree.

Q. Thank you very much, you have gone up in my estimation.—A. I made a mistake somewhere.

Q. I should like to ask a few questions with regard to depositors. What amount of interest is given on deposits?—A. In Canada?

Q. You can only answer in regard to your own bank?—A. They are all the same in Canada, $2\frac{1}{2}$ per cent on savings.

Q. Is interest allowed on deposits made after the first of the month?—A. I do not know, is it?

Mr. DODDS: Only when new accounts are opened.

By Mr. Spencer:

Q. Not old accounts?—A. In the savings department, we pay on the minimum monthly balance except when you open an account, as Mr. Dodds said.

Q. Then it would not necessarily carry the full $2\frac{1}{2}$?—A. After the first of the month.

Q. It might be even down to 2 per cent, if any cheques were drawn?—A. No; if you lose the whole interest for a month you could not possibly get the rate down to 2 per cent.

Q. After the account is opened and has gone a month?—A. If you were operating a savings account with me, and you come in, as I recall it now—do not hold me to this, I am speaking from memory, I have not dealt with these things for a great many years—speaking from memory you come in on the 15th day of the month and added something to your account, you would not get anything on that additional amount until the 1st of the following month. That is the practice of saving banks the world over.

The CHAIRMAN: You do not give them day to day interest?

The WITNESS: No.

By Mr. Spencer:

Q. I have in my hand a statement of the Royal Bank of Canada, dated November 30, 1933. This statement is a copy of the returns to the government, and I also have a statement of your published account, and I should like to ask some questions with regard to the published statement. I shall give you the

[Mr. M. W. Wilson]

figures in millions, but I shall ask the reporter to put in the exact figures. The government return reads as follows:—

Balance due Dominion government, $8,649,947;
Balance due provincial governments, $8,618,067;
Deposits by public payable on demand in Canada, $133,039,759;
Deposits by public payable after notice in Canada, $263,711,727;
Deposits elsewhere than in Canada, $165,273,458.

Now, as I said, on the advertisement I find simply two items, "deposits not bearing interest, $128,829,694;
Deposits bearing interest $450,463,265.

A. You are quoting from two different things?

Q. Yes, but both total the same amount?—A. Surely; they are on the same day. The first statement that you quoted was the annual statement sent to shareholders; that in a few minor matters is made up a little differently with respect to deposits. The shareholders' statement, as required by the Bank Act, shows deposits divided into interest and non-interest bearing deposits. Monthly statements, on the other hand, shows demand deposits in Canada, notice deposits in Canada, commonly called savings, and then deposits elsewhere. In other words, in one category you have three headings and in the other you have only two. The total of course is the same.

Q. Do I understand you are paying interest on $450,463,265?—A. What is that?

Q. It says, "Deposits bearing interest,"—A. If it says that, why, it is true.

Q. Of course, the two amounts must make up the others?—A. They do; not "must," they do, because they are made from the same figures the same day.

Q. What proportion of deposits elsewhere than in Canada are savings deposits?—A. I cannot answer that.

Q. What interest is paid on them?—A. They vary, all sorts. In New York we pay nothing, in London we pay next to nothing, and some other countries. In Paris we pay a very low rate. There are places where they are paying what we pay in Canada. As a matter of fact, we pay more in Canada than any place I can think of.

Mr. Coote: Have you reduced it?

The Witness: We are trying our best.

By Mr. Spencer:

Q. What interest do you charge for foreign loans?—A. It varies. In the main we get rates that are equal to and better than we can get in Canada. I am speaking of what we call commercial loans as distinct from call loans.

Q. I would like to ask you some questions with regard to the position of the farmer. Mr. Logan said that a farmer in good standing would have no trouble at all in getting a loan.—A. Right. This morning I said in 1932 that we loaned 13,600 farmers, out west.

Q. I suppose if the farmers are not good risks at the present time it is because they are not in good standing?—A. That is true. He has no crop or he is in financial difficulties. Remember there are a lot of people in the east who are in financial difficulties too.

Q. I would like to take you back to a situation I am very familiar with, in 1930 when we had the second snow in October and a large part of the crop was left in the field and we did not expect to thresh until spring—and I am not in this particular instance referring to your bank. I happened to go into the bank one day and found a queue of people half way across the outside office wanting to see the manager. They did not think for a moment that they would be able to thresh until the following spring. They had in the field a very good crop.—A. But covered with snow.

[Mr. M. W. Wilson]

Q. Yes, covered with snow, but they had to have the wherewithal to carry through the winter, some wanted $50 and some $100. I saw the manager; I know him very well, a particularly fine type of fellow he is too, and I said to him when I was inside his office " can you oblige those fellows at all on their crop?" and he said " not five cents."—A. What was the reason?

Q. Goodness knows. I suppose he had had instructions from headquarters, but it did seem to me a very unfair ruling.—A. I know, but that is one of the finest alibis in the banking world. I was a branch manager for many more years than a general manager and when I did not want to do anything I always blamed it on the general manager.

Q. The particular part of the country I am speaking of is one that has never had a complete failure, those people have been there for twenty-five or thirty years, and they were not liable to get up and go away in the night, and it did seem to me a most unreasonable stand for the manager to take.—A. To repeat, if these farmers were in good standing and of good character I do not know why they should not have received assistance. That is our business, and goodness knows we are loaning millions every year.

Q. The result was that these people had to go and get credit at the local store.

The CHAIRMAN: I can remember the time when the local storekeeper was the banker for all the farmers; it was quite the customary thing, and he, in turn, was carried by the wholesaler who, in turn, was carried by the banks. Now-a-days they throw the burden on the local member of parliament.

By Mr. Spencer:

Q. Mr. Logan said that farmers got their loans from spring till fall.—A. Seasonal loans, yes.

Q. It is the first time I have known of it and I have been in the west for twenty-seven years, and only in very exceptional cases could we get from spring till fall. The notes generally run from three to four months.—A. That has nothing to do with the statement. You come in to make a loan, I take your note for three months. I do not expect you to meet that note at the end of the three months, but if you have a note coming due you would come in and renew it which gives the manager a chance to talk things over with you, to find out what your crop prospects are, etc. It is not a question of trust, it is just a question of the local manager trying to keep in touch with what his customers are doing.

Q. There is a complaint that sometimes in the middle of the season the notes are not being renewed and it leaves the farmer in a very bad position indeed.—A. Any manager that lends money to a farmer in the spring, say in April and expects to get it paid in July should have his head read. We encourage our managers to take notes, say for three months, just for the reason I mention, so that our managers will have a chance to see his customer and find out what is going on, because our managers have to make reports to head office from time to time on their loans; the bank inspector wants to see them, and we want to see them, in head office, and the manager cannot do that unless he sees the customer.

Q. It adds to the interest rate if it is compounded?—A. You do not put that seriously forward as a reason.

Q. It means something to the farmer.—A. It makes an infinitesimal difference. That is not the reason it is done, I give you my word for it.

Q. I understood you to say that you are charging 7 per cent now.—A. Yes. We put the rate down to 7 per cent. All the banks did, as a matter of fact, when they made the cut in the savings rate.

[Mr. M. W. Wilson]

Q. Have you ever charged 9 per cent or 10 per cent?—A. The Royal Bank did not, but we took over some banks that did and as quickly as we could change it we did.

Q. I have a note here carrying 9 per cent.—A. The Royal Bank?

Q. No, not the Royal Bank. I have in my hand a list of all the loans guaranteed by the government to the banks including anywhere from the matter of 30,000 tons of steel rails, Algoma Steel Company—

The CHAIRMAN: Mr. Spencer, just what are you driving at, under this heading? Surely we do not want to open that up now.

By Mr. Spencer:

Q. I am not going to take up much time. I have all together a list of eight corporations and they cover the nice sum of $96,000,000 odd.

Mr. MACMILLAN (*Saskatoon*): Does that include the C.P.R. loan?

Mr. SPENCER: It includes the C.P.R. loan. It does not include the Wheat Pool loans at all.

The WITNESS: You do not want me to complete the list, do you?

By Mr. Spencer:

Q. Was there any reduction in interest to those different organizations when the government gave its guarantee—A. Was there any reduction?

Q. Yes, in interest?—A. Do you imply that the government added their guarantee to an old transaction? That was a new transaction.

Q. This type of business was being done before then. Was there a reduction in the rate of interest to these different organizations?—A. Did the banks set a lower interest on those transactions because the government guaranteed them? Yes. The C.P.R. instead of paying 6 per cent is paying 5 per cent; that is good security.

Mr. POWER: The C.P.R. paid more than 5 per cent on a loan of its own.

The WITNESS: The C.P.R. could not at that time get the money itself at any rate. The conditions are different. A five year loan is not an ordinary loan.

By Mr. Spencer:

Q. What did the government get out of this?—A. A lot of abuse, but they saved the credit of the finest private organization in Canada, I would say.

Q. I have a statement with regard to the $60,000,000. I notice that your bank have total assets in round figures of $719,000,000 and total liabilities of $717,000,000?—A. When you say total liabilities you are including our capital reserves and things like that?

Q. Yes; if you take the total liabilities from the total assets your balance is $1,818,499?—A. Oh yes, that is the profit and loss account.

Q. Now, people have been wondering how it was that you were able to loan to the C.P.R. $12,280,000?—A. They were wondering at what?

Q. They were surprised that you were able to loan to the C.P.R. $12,280,-000.—A. That we were able to? Why, we did it very conveniently.

Q. I know how it can be done, of course, but you say these liabilities include your capital and your reserves?—A. Yes.

Q. Well, you would not loan your capital, would you?—A. Why not? We would loan anything that we had on the assets side.

Q. Does not the capital go into buildings, etc.?—A. Not largely, no; but you were saying just a minute ago that it does not take any capital to make a loan; we just make loans and create deposits.

Q. You were good enough to accept my suggestion before.—A. What did I accept.

[Mr. M. W. Wilson]

Q. Every time a loan is made it increases the amount of money in existence.—A. I did not say that. I said that every time a loan is made, if you regard the banking system of Canada as a whole, it creates a deposit or it pays off another loan.

Q. Suppose in the case of an entirely new loan, a loan of $500,000 was made, there would be $500,000 of money increase to what there was the moment before?—A. Yes, your deposit money; I do not dispute that, but I do not know for how long.

Q. There are just one or two questions here with regard to section 91 which was drawn to your attention this morning. You said the reason that the bank did charge more than 7 per cent was because the section was drawn probably ambiguously and it had been decided in the courts in favor of the banks.—A. The highest court in the Empire interpreted the section. We took that as an interpretation of the Bank Act, that is, the law.

Q. I would like to ask your opinion, Mr. Wilson, if the amendment suggested in the new Bank Act is also ambiguous, or do you think it will hold water?—A. Do I think the banks will observe it, or do I think there is another joker in it.

Q. If it is the same joker that was in it before.

The CHAIRMAN: Do you think that is a fair question to ask anybody but a court of law?

The WITNESS: It is not ambiguous at all.

The CHAIRMAN: They understand it and intend to live up to it, he says.

By Mr. Spencer:

Q. You said this afternoon I think that bonuses were given to your managers on the business done or on the profits made.—A. I did not say that, no. It has been customary for the banks in Canada in prosperous years to pay what we call a special bonus to everybody, from the general manager down to the door-keeper and chauffeurs, based on their salaries.

Q. Not on the actual business done at the branch?—A. No, no. It is a percentage of his salary. Perhaps it might be half a month's salary. In fact one time I had a brain storm and gave them a whole month's salary. That is the last one they got. Incidentally, we only leave one man out of that, we never pay him a bonus, and that is the president.

Q. You said, Mr. Wilson, that you thought the depression was largely due to the war?—A. I think it goes back to that.

Q. Well, do you think that if we had not had a war at all we would not ultimately have come to this situation?

Mr. ERNST: Surely that is not within the terms of reference.

By Mr. Spencer:

Q. Anyway, do you not appreciate this point, that after the war we were in a better position as far as the production of goods were concerned than we were before?—A. That is the trouble, we were producing too much. The whole world is over industrialized.

Q. Well, if the people could consume the goods surely we would not have too much.

By Mr. McGibbon:

Q. Now then, I know a firm who were operating successfully, they were not bankrupt, it was just the fact that they could not borrow money?—A. Is it not possible that if the bank had loaned them the money they would have increased their stocks and perhaps helped to put somebody else out of business?

Q. I am coming to that in a moment. There was another case where the cost of the raw product of the industry fell to almost nothing. The manager

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and his board said "this is the time we should get into the market and buy raw material, we will never get it cheaper than it is now." They did not have the money but they had the plant and stock worth half a million dollars. The banks would not lend them a dollar to buy raw material when it was at the lowest price it had ever been?—A. They did not want to buy this material for the purpose of operating, but simply because it was at a very low price.

Q. Yes?—A. And was there a reasonable prospect of them selling their product if they had manufactured it?

Q. This was only a year ago and they are in business now manufacturing and selling their product. The point is: this was raw material that they had a chance of getting for almost nothing. Supposing they had had to store it for a year or two, they thought it was good business?—A. It may be good business from their standpoint, but I question whether I, as a banker, would consider it good business to give money for such a purpose to any manufacturer until the time came when he could manufacture and sell it. Obviously if they did not have the money of their own to put into it they would have to go to the banks to borrow.

Q. They never ceased to operate though?—A. I must have misunderstood you. I thought you said they wanted to buy the raw material and put it aside.

Q. The point I am coming to is this: That business was not run on the advice of the president and his board. It was run on the advice, or say so, of the bank directors who, presumably, knew nothing about it?—A. In other words, that particular industry was what the man in the street says "in the hands of a bank."

Q. No, as I said they did not owe the banks anything?—A. Otherwise, why would they take instructions from the banks.

Q. They were in their hands in this way, while they did not owe the banks anything the banks would not lend them anything to buy their stocks?—A. I see. In other words, because the banks in their wisdom or unwisdom decided they could not make the loan they could not operate.

Q. That raw material has increased 300 per cent already, and had they been able to buy it, fifteen months ago, you see the better position they would be in. It was their judgment that they should buy but the banks simply vetoed it. I am not finding fault, Mr. Wilson, but what I am coming to is this, what I am leading up to is, do you not think in a time of a crisis such as we have been going through there should be somebody, or some organization, that could probably finance these more or less speculative industries, in the interests of the country; what would you suggest, or have you anything to suggest?—A. That is a big question and I would not like to answer it offhand. However, I would like to deal with the purely banking phase of it. It is awfully hard for a banker to deal in generalities.

Q. This is a specific case I am giving. The only thing I am not giving you is the name of the firm or the industry?—A. Yes, but I have found from experience, and I have had to deal with a lot of complaints from all over the country, complaints of all sorts, and I have found that in the great majority of cases there was something that the man who brought it to me did not realize, that he had not been told the whole story. I do not think that the attitude of the banks in the last three years has been to curb business.

Q. I quite agree with you?—A. I say for myself that I have probably lost many dollars for our shareholders just in trying to keep things going.

The CHAIRMAN: Should we go into this sort of thing, Mr. McGibbon? I want to be generous and I have been generous. We will never get through with the Bills, if we pursue this line.

[Mr. M. W. Wilson]

By Mr. Spencer:

Q. You spoke of the drop in exports the world over, Mr. Wilson.—A. Yes.

Q. I notice that Japan last year increased her exports by 53 per cent.—A. There must be some special reason for that.

Q. I was wondering if you could tell me the reason.—A. You probably know it as well as I do. They are making a raid on the international trade of the world. They are sending their trade emissaries down to South America; they are trying to steal the cotton trade of India from Lancashire.

Q. How do they do it?—A. Don't ask me. What do they pay there, ten cents a day?

Q. Is it a fact that they are bonusing their exports?—A. I do not know, but my understanding is that they pay their workmen hardly anything. They have an entirely different standard of living which we cannot compete with.

The CHAIRMAN: And we do not intend to compete with them on the same basis.

By Mr. Bothwell:

Q. The inference to be drawn, I think, from the question asked by Mr. Spencer, in connection with that new loan of $500,000 is, that as soon as that loan is made there is a million dollars of new money in circulation.—A. When you make a $500,000 loan, regarding the banking system as a whole, you put for the moment $500,000 to the credit of somebody and to that extent you have increased the deposits of the country $500,000; but it is only for a moment, because a man does not borrow to the extent of $500,000 for the mere sake of placing it to his credit and leaving it there. He turns around and pays somebody else, and he again in turn pays off somebody else. The money goes from one person to another.

Q. So that the inference that was drawn by Mr. Spencer that there was a million dollars of money put into circulation by reason of that loan is not the correct inference?—A. I do not know whether Mr. Spencer has that inference.

The CHAIRMAN: As a matter of fact, there is not a dollar put into circulation; they are all bookkeeping entries.

Mr. BOTHWELL: I just wanted to clear that up.

Mr. SPENCER: A bookkeeping entry is just as good if you can pay a debt with it.

The WITNESS: If the bookkeeping entry represents something real, as it does in the matter of a bank loan or a bank deposit.

By Mr. McGibbon:

Q. Mr. Wilson, the function of the banks, as I understand it is two-fold. First, you are the custodian of the deposits.—A. Yes.

Q. And second, you finance the commerce of the nation. Now, I think most of us believe anyway that in the last few years of this depression period, commerce has not been financed. I am not criticizing, but I happen to know of a number of industries that could not get money to finance their business; they are still in existence and they are being financed to-day by the banks, but they could not be financed a year or so ago.—A. Well, what was the nature of the industry, why was it they could not be financed a year ago?

Q. I do not know why. Well, some of them were in the lumber industry.—A. I can give an answer there. Most of my lumber friends were loaded up with inventories, and they had no more thought of going into the woods and adding to those inventories than I had of giving them the money to do so.

Q. One case that I know of, they had the plant and they had the limits, and they thought they could sell their product.—A. They thought?

[Mr. M. W. Wilson]

Q. Yes, to be fair, I do not think they had any money, but they had customers, and their thought was predicated on a continuation of the state of business as then existed.—A. In every case that a lumber man came to us and we thought that he could sell his lumber we financed him readily, and we financed some large operations.

Q. The point I am coming at is this, the fact that they could not operate put a lot of people out of employment?—A. Undoubtedly.

Q. I do not doubt that. I will give you another case. There was a merchant in the town where I live, the town of Bracebridge, who told me he took $700 worth of relief orders up to the bank to borrow $300 and was refused. Now, 80 per cent of those relief orders were paid by the two governments, surely the governments are good for credit?—A. Certainly they are, but I do not know anything about relief orders there. I live in a province where you can get relief orders by the bushel and nobody knows whether they are good or bad and you would not lend a dollar on them. There has been funny business going on with a lot of these things, and an ordinary banker is not competent to say whether that is a legitimate relief order which will be honoured by governments.

Q. These were signed by the municipality and all the municipality had to do was to send them down to Toronto and get the money?—A. That is all right, but we live in Montreal where they have been signed too by the municipality and nobody will recognize them.

Q. But this is a small municipality of 2,000 people?—A. If there was no doubt as to the authenticity of these relief orders I would say again that that was a foolish thing for the branch manager to do.

Q. What I mean is this, it seems to me that there should be some institution, with the government behind it if you like, that should fill this gap in times of crisis because it puts so many men out of business and they have to go back on relief. Could you suggest anything in that connection?—A. Well, you mean an R.F.C. such as they have in the States?

Q. I am only asking for information, Mr. Wilson?—A. Well, you are asking me to suggest something to which I have not given any particular thought, because I have not thought that the situation demanded anything of that sort.

Q. I think it demands more than you think, or has demanded, in the past? —A. I know a lot about the grief in the country.

By Mr. Power:

Q. Would there be a possibility of inserting something in the Bank Act which would restrict bankers, in loans on securities, to the collateral which was put up at the time at which they made the loan?—A. In other words, do away with the personal convenant?

Q. Exactly?—A. Not with the consent of the banks.

Q. What effect would it have? Supposing I had $5,000 worth of C.P.R.? —A. The effect of it would be that we would be buying the collateral; we would not be loaning money. If the collateral was good we would get our money back. If there was any profit in it you would get it, and if there was a loss the bank would have to stand it.

Q. There is nothing practical or possible?—A. Not to my mind.

The CHAIRMAN: Do you think it would be fair?

Mr. POWER: I do not know. There have been so many complaints of people having put up collateral worth far more than the amount of their loan at the time at which the bank accepted it. The bank accepted it as perfectly good collateral, it was a loaning transaction. In the olden days, I understand

when you went with a contract of loan, in the mediæval days, you gave a man your gold or whatever it was, and he gave you goods or whatever he wanted to give you, and when the time came to pay, he kept what had been put up. That is to say they became pawnbrokers. Would there be a possibility of inserting something in the Bank Act with regard to certain types of loans making the banks pawnbrokers?—A. I have no desire to be a pawnbroker, if that is what you mean.

Mr. IRVINE: Will Mr. Wilson be here again, Mr. Chairman, or is this our last chance to question him.

The CHAIRMAN: If he is required, Mr. Wilson will come back again.

Mr. IRVINE: All I wanted to ask was in connection with the pension fund of the employees, the same question that I put to Mr. Logan and which was not completed on that occasion. And I think also that Mr. Logan gave me erroneous information.

The WITNESS: I will be glad to give you any information I can.

The CHAIRMAN: I am sure Mr. Logan would correct anything, if it was called to his attention.

Mr. IRVINE: I am quite willing to wait if there is going to be an opportunity later.

The CHAIRMAN: What is it you want to ask, Mr. Irvine.

Mr. IRVINE: My question to Mr. Logan was in regard to the manner in which the pension fund is handled by the bank relative to employees who have left, or have been discharged by the bank.

The WITNESS: You want me to answer that.

By Mr. Irvine:

Q. Yes.—A. When a man retires from the bank he gets back one-half of his contribution to the pension fund, and the other half is retained by the fund as compensation for carrying the risk because if at any time while he was in the fund he had become incapacitated, unable to carry on, the fund would pay him till he died, and when he died it would pay his widow something, and so on.

By Mr. MacMillan (Saskatoon):

Q. After how many years in the employ of the bank?—A. At any time, it does not make any difference.

Mr. IRVINE: I have here the constitution and rules of the Pension Fund of the Canadian Bank of Commerce, and it is there provided that no money shall be paid out of the fund to any member that ceases to be an employee of the bank.

The WITNESS: Well, I cannot answer for Mr. Logan, I am speaking for the Royal Bank.

By Mr. Irvine:

Q. They differ then?—A. Oh, yes, all banks have different pension schemes.

Mr. TOMPKINS (Inspector General of Banks): What is the date of that booklet, Mr. Irvine?

Mr. IRVINE: Adopted May 30, 1925.

Mr. TOMPKINS: I would not be surprised if it has been amended since then.

Mr. IRVINE: I have a letter here:—

I was an employee—

[Mr. M. W. Wilson]

The CHAIRMAN: Wait a moment, Mr. Irvine. It is now 6 o'clock. Mr. Wilson has had rather a trying day. Shall we sit to-night or shall we adjourn. Mr. Dodds, of course, would like to stay over for this hearing and he would like us to go on. On the other hand, I do not think it is fair to ask Mr. Wilson to spend any more time on the stand to-day.

Mr. IRVINE: I quite appreciate that, Mr. Chairman. But just before you close, the banks are public institutions and we have a right to enquire as to the wages paid employees of the bank, and in view of the fact that they are not permitted to organize to protect themselves—

The CHAIRMAN: There is nothing to prevent them.

Mr. IRVINE: I would like to move an amendment to the Bank Act to that effect.

The CHAIRMAN: It will be open to you, if you give notice of it.

Mr. IRVINE: I would like to question some manager more particularly on that some time.

The CHAIRMAN: Are you finished with Mr. Wilson on this phase of the enquiry. As far as he is concerned, I think I might say that we are finished with him.

Witness retired.

The CHAIRMAN: Shall we go on with the question of interlocking directorates to-night, or do you want to postpone it until a later date.

Mr. POWER: I am through with all the general managers on this phase of my motion. There are different matters, however, which have not been brought before the committee but which will, doubtless, be brought up under different sections of the Bill and then some bankers will be here I suppose.

The CHAIRMAN: They are all available. I understand they will make it their business to be available.

Mr. POWER: Well, let it go at that and adjourn to-day and resume next week. Personally I do not think we can get anywhere on interlocking directorates with Mr. Dodds or with any of the general managers.

The CHAIRMAN: I understand Mr. Power has it in mind to ask for certain other witnesses on that phase. However, I am advised that Mr. Dodds and Mr. Wilson are here to speak to the point and that they have prepared a brief in that connection. If it is the wish of the committee we could hear Mr. Dodds on that point to-night. I think probably we could finish with him and possibly after that hear from Mr. Wilson. I do not suppose we could finish the enquiry to-night.

Mr. POWER: So far as I am concerned, they can file their briefs and we will be able to question other witnesses.

The CHAIRMAN: All right. Let Mr. Dodds hand in his brief and it will be included in to-day's proceedings and, if we require him to come back for cross-examination on anything arising out of it, he will be available.

Mr. POWER: Has Mr. Wilson a brief also.

The CHAIRMAN: No, he has not one prepared.

Brief filed by Jackson Dodds, Esq., with reference to paragraph one of Mr. Power's motion, viz:—

> The interlocking of directorates as between Banks, Trust Companies, Insurance Companies and important industrial concerns, and the effect of such interlocking directorates on the general, financial and economic condition of the country.

The word "interlocking" as applied to directorates is frequently intended to suggest that there are sinister motives behind the election of certain men to more than one board. I prefer to think that the word is not used in that sense in Mr. Power's Motion, and that Item No. 1 has been included with a view to bringing out useful information.

It is unfortunate that there should be any apprehension on the part of the public in regard to partial duplications of directorates and the opportunity afforded to allay such apprehension is welcome in so far as the banks are concerned.

The chartered banks are the depositories of savings of the public, totalling $1,355,000,000 in Canada. During what has been described as the greatest depression the world has ever experienced, we have seen below the border literally thousands of banks fail, with colossal losses to depositors, and finally the whole United States' banking system lapse into a state of suspended animation. During that unprecedented period not one Canadian bank closed its doors; their 3,900 branches opened for business as usual every business day, and not a single depositor experienced a moment's delay in withdrawing any portion or all of his balance.

As a General Manager, an employee of a Bank, I have no intention of giving all the credit for this achievement to the directors, with whose selection General Managers have nothing to do—the 47,000 shareholders deciding that. The Bank Act as it stands, and which is presently before the House for its decennial revision, must be given its large share of the credit, and that need not rob the directors of their meed, nor the managements and staffs.

It is a matter of primary importance to the four and a half million depositors and the 400,000 borrowers that the banks should be under the direction of men of the highest standing in all respects. Indeed, if this fundamental were ignored a bank would not reach even the organization stage—it would be impossible to raise the minimum amount of capital required to establish a bank, and if it were possible to do so the bank would not progress beyond the organization stage because the public would not entrust it with deposits, without which a bank could not function.

In selecting directors from men of the highest standing, the shareholders of banks in Canada, as in England, choose those who have been successful in their own business and who will bring to the councils of the Board wisdom born of successful experience in various businesses and professions, which will be of value in directing policy.

It is desirable, if not essential, that there shall be on a Bank Board men who represent and have association with the leading lines of business and industry in the country. Applications for loans come from individuals and corporations engaged in every industry, and it is therefore obviously helpful to have at least one person on the Board who has special knowledge of the business carried on by an applicant for large advances and the existing conditions relating to that business.

We have ten million people in Canada and amongst them we have at least the average proportion of active minds and able men that would be found in any country,—possibly a higher percentage for reasons that an ethnologist could supply. Our institutions, whether financial, commercial, industrial or charitable, invariably endeavour to avail themselves of the advice, assistance and influence of these men of standing, experience and varied contacts.

It naturally follows that before such men are sought by shareholders to direct the affairs of Banks they may have already become directors of more than one corporation, such as Trust Companies, Insurance Companies and large industrial concerns. The reason why shareholders of a company ask a bank director to take a seat on their board is the same as that for which

[Mr. Jackson Dodds]

shareholders of a bank ask a company director to join a bank's board—hence the duplication.

There are, however, successful men who also have been the architects of their own fortunes, men of character as well as of means, who are so immersed in their own affairs that they scarcely mingle with their fellows—commercial recluses, as the late George Hague described them, men who know a mere nothing of business affairs in general and are themselves unknown. Such men would be indifferent bank directors; and still more unsuitable would be the man who has not made a success of his own affairs, however well meaning, public spirited or respectable he might be.

The custody of the savings of the public could not safely be entrusted to a bank with a board lacking the moral and practical essentials I have described.

I have stressed two primary attributes of a bank director, and would like frankly to mention a third; he should be a man who can and will be helpful in influencing safe and profitable business to the bank. I have put this last because character and experience on the part of bank directors are of first importance.

The directors of banks are therefore drawn from leaders in business and professions from coast to coast. Directors who live in distant parts of Canada, attend meetings less frequently, but their knowledge of the districts in which they live is at all times freely drawn on by the board.

The value to a bank of the combined wisdom and wide experience of such a body of men is real and substantial, and it would be a serious loss to the country at large if the banks were debarred from availing themselves of the advice and assistance of those best able to give valuable advice and assistance. Undoubtedly the soundness of the banks as depositaries and their usefulness in serving the financial needs of the country at large depend in large measure upon their being free to bring together on the boards men of the type I have described. Any attempt by legislative enactment to prevent them from serving in such capacity would not be in the public interest; it would weaken our banking structure and be an unwarranted infringement of civil rights. I have no knowledge of any unmoral or unethical abuses having grown out of the custom in Canada and England of selecting bank directors from those best able to give valuable service, and am convinced that any evidence of a bank director bringing discredit on a Board or on an institution would be quickly noted by other members who are jealous of their reputation and standing, and appropriate action would follow with greater certainty and celerity than any legal process could provide.

The CHAIRMAN: On Tuesday we will hear Major C. H. Douglas for a period. If any member of the committee wants to call a specific witness, will he kindly let me have the name of such witness in the morning. We are having a meeting of the sub-committee to-morrow and we will consider the matter then.

The committee adjourned at 6 p.m. to resume on Tuesday, 17th April, 1934, at 11 a.m.

HOUSE OF COMMONS,

April 17, 1934.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Mr. R. B. Hanson in the Chair.

The CHAIRMAN: Gentlemen, will you kindly come to order. Mr. Dodds has some statements he would like to file with the committee.

Mr. DODDS: Mr. Chairman and gentlemen, the committee desired to be furnished with a statement showing the difference, if any, between the rates of interest charged by the Bank of Montreal on loans to municipalities in eastern Canada and to municipalities in western Canada in the years 1930 to 1933 inclusive. I am handing in that statement now; and, on behalf of Mr. Logan, the General Manager of The Canadian Bank of Commerce, I am handing in information required from that Bank. He furnishes the committee with copies of circulars and excerpts from letters issued by the head office of The Canadian Bank of Commerce to their different branch managers for the years 1927 to 1929 with reference to loans. May I ask that copies of these be placed in the record.

The CHAIRMAN: They will be inserted in the record.

Mr. HACKETT: Mr. Chairman, acting as the spokesman of the sub-committee, I move that Major C. H. Douglas be now heard by the committee.

The CHAIRMAN: Is it the pleasure of the committee to hear Major Douglas?

(Carried.)

Major Douglas would you come to the platform, please.

Major C. H. DOUGLAS, called.

The CHAIRMAN: Gentlemen, Major Douglas is not a stranger to Ottawa, but it might be fitting that I should give just a brief introduction concerning him. Major Douglas is an engineer and an economist; he is a graduate of Cambridge University, and has had a rather distinguished career, in India, where he directed Westinghouse activities, and, in latter years, he has given some considerable time to the study and advance of economic theories. He has published several works including "Economic Democracy," "Credit Power,"' "The Control and Distribution of Credits," "Social Credits," "The Monopoly of Credit." His theories have made considerable headway in England, where a group, including the Dean of Canterbury, representing the Church, the Marquis of Tavistock, representing the nobility, and, strange to say, several novelists, have taken up his theories. In the United States, his theories have been publicized by a new economic group in New York, and by a semi-monthly periodical called "New Democracy." In Canada, he is said to have a substantial following in the Prairie Provinces, and it is out of deference to the views of this following, and their representatives in the House of Commons, that he has been invited to address you.

Mr. ARTHURS: From what are you reading, Mr. Chairman?

The CHAIRMAN: This is a statement prepared by myself. I will now ask Major Douglas to proceed.

[Major C. H. Douglas]

The WITNESS: Mr. Chairman and gentlemen of the Banking Committee of the Canadian House of Commons: I should like to express at once my appreciation to you for the compliment that you have paid me in asking me to appear before you, and to assure you at once that my single object in taking up your time, and in devoting my own time, to the matter is to be of assistance to you in solving what, I think, we all agree is a difficult problem. Now, there is in regard to this matter a very insistent demand for a plan—a demand with which I am quite familiar—and I will relieve your anxiety by saying that I do propose to put something that may be called a plan before you for your consideration, not necessarily in a final form as it would be applicable to Canada, but I should like, before doing that, with your indulgence, to put before you a picture of the situation as I see it at the present time. Because, if that picture is an incorrect picture then, of course, any deductions which I, or anyone else, may draw from it are likely also to be incorrect.

Now, first of all, I should like to draw attention to eight major symptoms or defects in the existing financial system. These symptoms, I would emphasize, are symptoms and not the disease itself; and, because they are symptoms, they are more easily apprehended by the ordinary observer than the actual nature of the disease. It is always easier to see the spots on the smallpox patient than to know whether he has smallpox or chickenpox.

The first of these is surplus unpurchasable production. Now, surplus unpurchasable production does not, and cannot, mean production which nobody wants, because it would be very difficult to find in the world at the present time any production which nobody wants; but there is a very large amount of actual production which nobody can buy,—which is an entirely different matter. So that surplus unpurchasable production can be translated into goods in excess of purchasing power.

The second feature is the consequent unemployment which arises out of that situation, since, if we have already a surplus of unpurchasable production we cannot profitably, in the orthodox sense of the word, produce any more. Consequent unemployment, however, can, from one particular viewpoint, be translated into the words "surplus production capacity" because unemployed workmen are workmen who are not producing things which could be produced if they were workmen.

The third symptom is consequent poverty—poverty resulting out of the consequent unemployment that we have just been discussing. Now, that poverty is not really the result of unemployment; it can be much more correctly translated as lack of purchasing power accompanied by economic need, which is quite a different thing to poverty in the real sense.

The fourth symptom is redundant industrial machinery and plant, and that again can be translated into surplus productive capacity in relation to purchasing power available. It does not mean that the plant is redundant considered from a realistic point of view, that people do not require the goods which those machines produce; it means that they cannot buy the goods the machines could produce; therefore it is surplus production capacity in relation to purchasing power.

Feature number five is consequent cutthroat competition to sell. That is to say, translated into a phrase, to interchange goods for purchasing power. That is exactly what selling means.

Feature number six: the disappearance of industrial profits, and these are expressed in purchasing power.

Seven: Consequent business and the industrial depression and failure, bankruptcies, etc., which mean a failure to acquire by the process of industry sufficient purchasing power to carry on.

[Major C. H. Douglas]

Eight: Export competition—increasing competition for foreign export markets to offset the failure of the home markets; and that can be translated into pressure to export real values for purchasing power, and the consequence of that, is international friction, threatening, and ultimately leading to, war.

Now, those symptoms of the working of the existing financial system—because we must remember that anything that happens at the present time which can be connected at all with finance—and I think you will find that as a result of the translations I have given you that purchasing power, which is what finance is, appears in every one—anything which can be connected with finance at the present time is connected with the existing financial system. The virtues, or the vices, or defects, of any alternative in connection with the financial system are, no doubt, very interesting; but they have nothing whatever to do at the present time with the actual state of affairs which exists. If it is the financial system which is responsible for these things, it is the existing financial system which is under discussion and at the bar of public opinion, and not the proposals of somebody else in regard to changes in the financial system. I think that is an important matter to recognize.

Taking these things in order: first of all I should like to ask you a question which, no doubt, you will allow me to answer for you, and that is, are these facts admitted? It is very desirable—in fact it is very necessary at the present time in regard to this matter to keep it from becoming a completely circular argument. I noticed with the greatest interest and attention in reading the reports of the evidence before this committee that many banking authorities have been discussing and denying questions which have been decided, for all practical purposes, for at least, ten or twelve years. For instance, do banks create purchasing power—that is to say credit money, or not? Now, it is quite obvious that one can go on indefinitely—if one man says black and another man says white and nobody decides that the argument has now come to an end—one can go on discussing that sort of thing forever. The first thing to do is to get the premises admitted without any discussion of this kind in order that something practical may come out of the discussion; and I feel sure that the whole of this committee, and everybody concerned, is really concerned to achieve a practical result and not to carry on a debating society.

So that the first question to decide in regard to what I have said is, are those facts, those symptoms, the existence of those symptoms, admitted? Now, I do not think that it is possible to obtain a denial of the existence of opinion on these symptoms from any responsible person at all; but, if it exists, I think, if I might be permitted to advise the committee in this matter, they should get a definite statement as to whether or not it is denied that those symptoms exist, and that if that denial is not made it should be assumed, and finally assumed, that they do exist, and that that part of the subject may be left.

Then the second question which it is reasonable to ask in regard to this matter is: is this condition of affairs satisfactory? Do we regard the existence of these symptoms as being a normal, inevitable and satisfactory state of affairs in the world at the present time? Now, I think the answer to that has to be qualified by a consideration of another fact which, also, I think, wants establishing—it ought to be established as a fact or as not a fact—and that is that during the past decade or so something like seventy-five, or eighty, per cent of the world's assets in what, at any rate, we might call the westernized world, have come into direct or indirect possession of the banking and insurance system through liens. While those symptoms have been an obvious growth, something like seventy-five to eighty per cent—the exact figure can be established and wants establishing—of the assets of the world have come into either direct or indirect possession through liens which are a part of the banking and insurance

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system. So that when we ask for an answer to the question: is this condition of affairs satisfactory? I think it can be seen at once that it depends on to whom it is satisfactory.

There are three possible factors in the matter—there may be more, but we will take them as three—first, the banks; is it satisfactory to the banks? Well, I cannot answer for the banks; but I should say that they would be very much less than human if they did not regard it as extremely satisfactory. Any organization or arrangement which brings seventy-five or eighty per cent of the assets of the world into the possession of one set of institutions, I think, might reasonably be assumed to be quite satisfactory to those institutions. That is a fact which, of course, has to be borne in mind.

The second is: is that satisfactory to the governments of the world? I cannot answer for them, though I think they are being pressed in various ways to make a statement in regard to the matter whether they are associated with the banking system or whether they are dissociated from the banking system. If they are dissociated from the banking system then it is not, of course, satisfactory to them.

The third is: is it satisfactory to the public? I cannot, of course, answer for the public, except as an observer of, perhaps, a fairly wide public in this country, and in Australia and New Zealand, in Europe, and in Great Britain; but I have no hesitation whatever in reporting to you, as an observer, that it is highly unsatisfactory to the public, and that the public is becoming increasingly restive in regard to it.

Now, if that is the case, you will see that the demand for a plan does not come from the public. The public is not interested in plans; it is simply interested in results. What the public wants at the present time is to get hold of some of the goods which exist, or are potentially available, and which it does not get at the present time. Therefore, in any realistic sense of the word the putting forward of a plan in connection with this matter must really include—what international lawyers call sanctions—powers for the achievement of the plan as well as some sort of an idea as to how the thing would work when it was achieved. I do not think that it is really a practicable plan, for instance, to put forward a final detailed scheme, with all the i's dotted and the t's crossed, to the banking and financial system, and say, may we appeal to your better nature to put this plan into operation? It would be very pleasant to believe that that would be a satisfactory method of proceeding, but I have some doubts as to whether it would be really effective. I feel sure that the plan would be received pleasantly and courteously, because my acquaintance with bankers is that they are just ordinary human people, and they want to be pleasant, if they possibly can—and, as individuals, many of them are very charming people, and I like them—but, so far as the action which will be taken is concerned, I think they would say, "Thank you very much; we will file that for future reference. Now, will you kindly produce another plan?" And I feel sure that the production of plans which could be filed for future reference could go on for a considerable period of time. So that, in order to produce effective results, any plan must have in it the seeds of the thing which will make that plan effective.

I believe it is possible to apply to this Banking situation some general propositions, and there are certain general propositions in regard to the achievement of a plan which requires to attain in itself the sanctions which will make it effective, which is something like this: First of all, you must have an object—and I should like you particularly to observe the order, which is the accepted order, in regard to these matters for the achievement of the result. First of all, I say you must have an object. Secondly, you must go into considerations which affect the attainment of the object. Thirdly, you must consider the courses open to both sides when you are endeavouring to attain an object which

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will be resisted. And I have been trying to make it clear that, without going too deeply at all into the matter, there are ordinary every day common sense reasons why any change from the generally accepted existing financial system will be resisted by those who are in control of the existing financial system; they have no fundamental cause of complaint in regard to that system; it is working very well in regard to them, so that you must realize that you will have to overcome resistance of a very formidable character.

In consequence you have to consider the courses which are open to both sides of the argument so that you may frame your plans effectively to overcome that resistance. And finally, fourth—not first—you must have the plan. The plan is the last of those four things you have to consider.

In regard to this matter, if you will look at the problem realistically—as I feel sure the members of this committee will—you will realize that it is absurd to suppose that any final plan can be put over at one fell swoop, as you might say, or once and for all, except under conditions of great difficulty. The matter has to be approached in the way as the maxim laid down by that great strategist of the last war, Marshal Foch, and that is the strategy of the limited objective, and quite obviously you want to move in the direction that you want to go, and you want to have every advance leave you in the position of advantage to move still further.

That is the general proposition. It is possible, I think, to proceed with this matter along those lines. You can say the first thing that is required, if possible, is to get an admission from the financial system, or those who speak for the financial system, that the satisfactoriness of its operation is entirely confined to those who are beneficiaries of the financial system itself. And, if possible, an admission of willingness to retrace the evil of their ways so that other people may benefit also. Well, I do not think myself that is a practical proposition, that is, a very good one; I do not think that you are at all likely to get that admission. There are no signs, in the past few years, of any willingness on the part of those who speak for the financial system to admit that there is anything wrong with the financial system. They will admit that certain administrators of the financial system have made mistakes, and they will say " That will be all right now, we will do better to-morrow, we will use the same system, although it has broken down in all sorts of ways with increasing frequency during the past one hundred years or so; we will use the same system, although breakdowns have been due to mistakes on the part of certain people, which we admit, but we do not admit any defect in the system."

So that we cannot accept that to be a satisfactory method of attacking the problem. But there are other methods, and one of those methods I would put before you for your discussion, which contains what we might call the first step of the possible plan, which is not a final plan, but puts you in a better position to proceed further, and also applies the principle of sanctions, I think, perhaps for the first time, to the existing financial system, that is to say, gives to the financial system, or those who speak for it, a reason which will appeal to them, I hope that they should consider these matters with a view to letting us negotiate about them.

This is a plan—a tentative plan—which I put before the government of New Zealand. It was preceded by a certain amount of correspondence, which, broadly speaking, covered very much the same lines along which I have been speaking to you this morning:—

I. From the enactment of these proposals no bank in New Zealand—

You will, no doubt, be able to translate this into Canada for yourself:—

—shall distribute a dividend either in or outside New Zealand in respect of operations carried on within the Dominion of more than six per cent (6%) per annum on the subscribed capital.

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Six per cent per annum seems to be the generally accepted dividend which banks ought to pay. I do not know what meaning you can attach to word "ought" but that seems to be the agreed interest which is being arranged for all Central Banks; that is the dividend which is paid by the Bank of England, and I believe, subject to your correction, it is the proposed dividend of the Bank of Canada:

II. No bank shall increase its capital in such a manner as to affect the gross amount of dividend distributed in respect to business carried on in New Zealand, except with the consent, and through the agency, of a legal enactment of the Dominion Legislature. Within three months from the enactment of these proposals, every bank operating in New Zealand shall make an exact return of its assets, specifying in particular all stocks, shares and debentures purchased by the bank, the prices paid, and the prices at which such stocks, shares and debentures are held on the books of the bank for the purpose of the annual balance sheet.

The same procedure shall be adopted in regard to all real estate, buildings, and all immovable property, together with furniture, fittings and appliances in the banks' ownership. Such statement shall include a sworn valuation of the current market value of all such assets at the date of the return, such valuation to be made by an independent surveyor or valuer.

III. Where it is found that the figure at which such assets are held on the books of the bank for balance sheet purposes is lower than the market value as obtained by the sworn valuation, an amount equal to such difference shall be transferred to an account to be known as Suspense Account No. 1. Where the bank in question operates in other countries than New Zealand, a complete return shall be rendered and a proportionate allowance for external business shall be made.

IV. All profits earned by the bank from any source over and above the amount necessary to pay a dividend of six per cent shall be transferred to an account to be known as Suspense Account No. 2.

V. Six months from the enactment of these proposals an amount equal to fifty per cent of the amount standing to the credit of Suspense Account No. 1 shall be applied to a reduction of the overdrafts debited to the customers of the bank, such appropriations being made pro rata on the basis of the average overdraft of the banks' customers for a period of three years preceding the date of the enactment of these proposals, and such appropriation of half the balance of this Account shall be made annually thereafter.

VI. One month after the publication of the annual balance sheet of any bank, an amount equal to seventy-five per cent (75%) of the amount standing to the credit of Suspense Account No. 2 shall be applied to the reduction, or reimbursement, of interest paid on overdrafts by the banks' customers, such reduction or reimbursement being made upon the same pro rata basis as that laid down in paragraph V.

VII. A similar procedure to that laid down in the preceding paragraphs shall be applied to the accounts and assets of all insurance companies operating in the Dominion, with the exception that the funds required for (insurance) Suspense Account No. 1 shall be provided by discounting or rediscounting the disclosed reserve with the New Zealand Reserve Bank, and that the disposition of the funds so provided shall be as in the following paragraph:—

Fifty per cent (50%) of the amount to be credit of (insurance) Suspense Account No. 1 shall be applied annually to pay for preference

shares or debenture stocks applied for by any natural born New Zealand subject over twenty-one years of age, to the extent that applications for shares to be paid for by this fund can be met. Such shares shall be allotted prorata to the applicants without charge, and shall be registered as non-transferable and as not good security for loans. On the death of a holder, or his permanent residence outside the Dominion, such shares shall be cancelled.

VIII. (Insurance) Suspense Account No. 2 shall be retained as a Dividend Equalization Fund to ensure that the dividend on all preference and debenture stocks allotted under the preceding clause shall receive a dividend at the agreed rates. Should this fund increase at a rate exceeding five per cent (5%) per annum such excess shall be allotted to a pro rata increase in the dividend on such shares as have been subscribed for under Clause No. VII.

IX. These proposals are intended for consideration in the light of the correspondence which precedes and accompanies them.

I propose, of course, to file a copy of that with the Chairman. I should like to explain certain features of it for your general consideration. Perhaps the best way that I can explain it is by explaining to you what happens when a public issue of the best class of gilt edge stock takes place at the present time. Let us take it outside Canada, take it to England, what the public do in England: You will always find no matter what the depression in the country is—and generally the greater the depression the more it is true—that when such an issue is made it is always over-subscribed two or three times in the first few minutes, and people who do not understand what is going on say, "What a lot of money the public must have." The great majority of these debentures and preference shares are acquired either by the Bank of England, joint stock banks, or Insurance Companies, for nothing. They are acquired by the simple process of writing a cheque for the amount of the shares. It is proposed, of course, to honour the cheque, which is upon themselves, which only requires the transfer of figures from one book to another. The result of that is to put into operation the machinery which has frequently been described, which says that the amount of money in a country varies only from two causes. The first of these causes is, that every bank loan creates a deposit, and the repayment of every bank loan destroys a deposit; and the purchase of securities by a bank creates a deposit, and the sale of a security by a bank destroys a deposit. So that when a bank applies for a large issue of, let us say four per cent Central Electricity stock which is, I suppose, about the most gilt edge stock which has been issued in England for some time, it gets, as the banks and insurance companies did get, practically most of that stock, and it pays for that stock by the creation of new money which the public gets, and which is taken back from the public when the public has received it through the agency of wages and salaries which have been paid out by the Central Electricity Board. The Central Electricity Board gets the money in the first place. They pay it out partly as wages and salary, and it goes back again for cancellation through the price system; but the shares are acquired (by a process of writing a cheque on a piece of paper) for nothing, and so long as they are in the possession of these financial institutions they draw four per cent, if that is the rate of interest, and when they are sold by that financial institution, the sale of them destroys a deposit.

Now, what is proposed as part of this, perhaps the first part which may be expressed as a sanction in this matter, is merely to let the general public get the shares for nothing rather than the bank get the shares for nothing. It is to be left, I think, to the general public as to whether they would prefer to have the shares for nothing or whether they would prefer to let the banks have the shares

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for nothing. There is no disguising the fact that there is such an alteration at the present time, and that is perhaps the less obvious of the meaning which can be attached to one part of these proposals.

I think perhaps I have given you enough to enable you to proceed to question me.

The CHAIRMAN: Gentlemen, "the field" is wide open, there are no "favorites."

By Mr. Hackett:

Q. Major Douglas, the concluding statement which you have made indicates, that in a series of transactions which you have outlined somebody—the banks or the public—get something for nothing; do you answer Yes?—A. With qualifications.

Q. Yes. Then the basis of your theory is that somebody shall get something for nothing?—A. No, I should dissent from that.

Q. You dissent from that?—A. Yes.

Q. Well, I understood you to say, that the public should decide whether the banks would get something for nothing or the public would get something for nothing; did you say that?—A. Will you allow me to explain to you the meaning of what I said.

Q. Yes, but before you do that I wish you would answer the question?—A. Would you like me to explain to you what is involved?

Q. Very much, but I would like you to say whether you did say that the public should determine whether the banks would get something for nothing or whether the public would get something for nothing?—A. Would you like me to explain to you just what is involved?

Q. Yes, very much.—A. What is involved is simply the question of who has the power to monetize real wealth. At the present time the power to monetize all real wealth is admitted to be in the sole possession of the financial system. I am suggesting that that power to monetize real wealth be at any rate shared with the general public.

Q. I again come back to my question: I understood you to say that somebody should determine whether the banks should get something or nothing or whether the public should get something or nothing, and I ask you did you or did you not make that statement?—A. Would you like me to elaborate still further?

Q. No, I would like you to answer the question?—A. I have answered it.

Q. I would like you to answer the question, Major Douglas. If you do not care to, we will drop it?—A. I say distinctly at the present time, that the banks do get something for nothing.

Q. Yes, that is the basis. Then you predicate your theory on the assumption, or belief, that the banks do get something for nothing?—A. I should repeat that statement with the greatest pleasure.

Q. Yes, we are in agreement?—A. Oh, yes.

Q. Now, what do the banks get for nothing?—A. They get the liens represented by the bonds for which they subscribe by cheque upon themselves; they get the liens on those bonds by merely writing a cheque upon themselves; all that they give in return for that is a cheque which has no value whatever, unless the deposit account to which it goes is drawn upon by the recipient of that cheque and used to obtain goods and services from the general public. The cheque which the bank in such a case writes upon itself is, in itself, nothing but a piece of paper with ink upon it; but, when it is paid to the account of somebody who has a bank account as, let us say for instance, the Central Electricity Board—those who work for the Central Electricity Board and are willing to exchange

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their goods and services for the deposit which is created in that way, as a result of that—the banks get a lien upon that work for nothing except the writing of the cheque in the first place.

Q. Then it is your view that when a bank—and I do not think that banks are in the habit here of writing cheques for large blocks of industrial stocks; but if a bank did write its cheque, it is your view that it is issuing a worthless document by reason of some prerogative which the legislature has vested in the bank? —A. On the contrary, what I am saying is that the worth of that document which it issues proceeds not from the bank but from those who are willing to deliver goods and services in return for that document.

Q. Do you consider that the bank's credit is entirely disassociated from money and wealth? Do you consider that the bank pays nothing for its credit? —A. The actual cost to the bank is the cost of maintaining its buildings, and staff, and so forth, and its buildings and staff are paid for in money, the thing that we call money. Now then, perhaps the greatest achievement of the first Macmillan report in England is, I think, to put beyond all question of doubt as to where money comes from. Money comes from the creation of money by the banks, therefore, when the banks pay their own servants for their services they are paying those services in money which is ultimately created by themselves.

Q. Is it to your knowledge that the banks receive deposits?—A. I think I might say it was to my knowledge, yes.

Q. And on some of those deposits—I am speaking now of Canadian banks—they pay interest, and is it to your knowledge that there is a very definite relationship between what you call the bank's extension of credit and its investments on the one hand and its deposits on the other?—A. That is true of an individual bank, but it is not true of the banking system.

Q. Again I am talking to you exclusively of Canadian Banks, because it is the banking legislation of Canada that alone is under review at the moment; are you familiar with the relationship between total deposits in Canadian banks and total investments by Canadian bankers and total extensions of credit by Canadian bankers?—A. Well, I feel sure from what you have been saying, sir, that you may recognize that that is in the nature of a circular question.

Q. My dear sir, it is not a circular question. I have merely asked you if you are familiar with the relationship between total deposits in Canadian banks and total investments by Canadian banks and total loans by Canadian banks, and the answer is, I suggest to you, yes or no?—A. No no, the answer is nothing like that. There is no fixed relationship between those things. The only fixed relationship is between the amount of legal tender and the total amount of loans and deposits.

Q. But, Major Douglas, I fear you have not understood my question.—A. Oh yes, I think so.

Q. It is this, do you know the total amount of deposits in Canadian banks? —A. You mean the actual figures?

Q. Yes.—A. No.

Q. Do you know the amount of total investment of Canadian banks in securities?—A. The total investment of Canadian banks in securities?

Q. Yes.—A. Do you mean the figures at which those investments are carried in their assets, or what was acutally paid for them in the first place?

Q. Take it either way you please.—A. Well, there is a very definite difference.

Q. Then give us the difference.—A. Well, the difference is the difference between the figures at which they are carried in their balance sheets, which only their auditors know, and the amounts of the cheques which they originally paid over for the securities.

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Q. With all deference, may I suggest that I have been unsuccessful in bringing to you my question in its entire simplicity. Do you know the actual amount which Canadian banks have actually invested in securities?—A. Well, if you will tell me, I would know. I mean, that should be the simplest way.

Q. Then am I to interpret your answer as meaning that you do not know?—A. It is quite irrelevant to my case.

Q. That may be, but it is not irrelevant to mine. Do you know the amount that Canadian banks have actually invested in securities?—A. No, but I should like to, will you tell me?

Q. Very shortly. So then you do not know the total amount of deposits in Canadian banks?—A. No.

Q. You do not know the total amount of investments by Canadian banks in securities, you have told us that.—A. I am asking you to find out by means—

Q. Just a moment, when I suggest a plan I may be able to give the information, but in the meantime I am trying to find out, if I can, the facts upon which you base your suggestion for a plan. Next, do you know what is the average extension of credit by the banks, or the aggregate of bank loans to customers at the present time?—A. I do not.

Q. Well then, if you do not know any of these three elements how can you say that there is not a close relationship between them?—A. Simply because I know, I think quite intimately, the methods by which the deposits and the loans are increased, and that is not a relationship which is changed by the difference between the amounts of the deposits and loans.

Q. I am going to give you a little information: between the total deposits in Canadian banks on which the banks pay and do not pay interest on the one hand, and their investments and total extensions of credit or loans on the other, there is an intimate and consistent relationship, they are nearly equal. Does that astonish you?—A. I should like you to repeat that, if you should be so kind; it is a most interesting piece of information.

Q. Possibly the reporter will repeat the question. (Reporter repeats question.)—A. Might I ask, why you lump together deposits on which the banks pay interest and investments on which they receive interest.

Q. Yes.—A. You lump those on one side of the balance sheet?

Q. Yes.—A. Might I ask why?

Q. Yes.—A. One is presumably a liability, the other is an asset.

Q. As I said a moment ago, it depends at which angle you stand, that is the answer. I would like to take you a step further, if there is a constant relationship between the credit that the banks extend and their investments and the deposits, do you think that one can justify the statement that credit is extended without cost and is a mere whim or the result of a particular prerogative conferred upon the banks by the legislature?—A. The answer to the last part is that it is a question of fact, and there is no question at all about the fact that the power of monetizing real wealth is not necessarily conferred upon the banks by the legislature, because I should say it was very doubtful whether it was, but it is assumed by the banks, and I think the shortest answer to the point that I think you are endeavouring to make is, where did the original money come from which formed these deposits and bought the securities. Where did it come from?

Q. That is another question and I want to leave that there for the moment, because I think we have gone far enough to establish that credit when extended is the putting forth of a commodity which the banks have had to buy at a price.—A. From whom did they buy it.

Q. They have their deposits on which they are paying interest.—A. Where did the deposits come from, in the first place?

Q. I must ask you to excuse me from going any further. I am trying to establish my point against your assertion that credit costs the banks nothing,

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because you will remember you were trying to find out whether the banks were going to continue to get something for nothing, and I am endeavouring to show you that this credit was not got for nothing by the banks?—A. I think not. The thing which, on your own showing, the banks pay for a deposit is money. If it is admitted as true by all authorities that, at any rate, the major portion of money is actually created by the banks, then it certainly follows that even if the banks are paying money for the use of deposits they are paying money which they themselves create?

Q. That is another proposition which I do not intend to discuss at the moment. I would like to know if you are the originator of the theory which you have propounded this morning?—A. I have not been engaged in propounding any theory; I have been engaged in surveying facts.

Q. Facts which we have found did not exist?—A. Now, that is very important—

Q. Just a moment— —A. Do they exist or do they not?

Q. Just a moment. You made assertions concerning the Canadian banking system, and you have admitted to us that the three elements upon which that assertion was based were beyond your knowledge—that is, the amount of the deposits in Canadian banks, the amount of the investment by Canadian banks, and the amount of the credit extended by Canadian banks?—A. The only relevance of the statement is the assumption that the Canadian banking system is different from the other banking systems.

Q. We will let that stand. I noticed that this morning you took us away to New Zealand, before a Canadian banking committee. I notice that when you were before the Canadian banking committee eleven years ago you took them to another country. When giving your testimony in England before the Macmillan committee you referred to conditions here?—A. Pardon me. I think the only reference I made to Canada, speaking from memory, was that I described certain evidence I had given before the Canadian banking committee.

Q. Quite right. I would like to know now whether this system by which somebody is to get something for nothing—A. Somebody other than the banks?

Q. By which somebody is to get something for nothing, has ever been introduced in any country?—A. Well, obviously, it is having a hard passage, for reasons which I have endeavoured to explain.

Q. Oh, yes, you told us that the beneficiaries under the present system were the bankers, and that they were, naturally, opposed to any innovation. I know that. But I am asking you whether your system has ever been introduced in any country, and whether it has ever been subjected to the test of experience?—A. Well, I should have two things to say about that. I should dissent from the use of the word "system" in that relationship.

Q. What will you call it?

The CHAIRMAN: He called it "plan."

The WITNESS: Plan.

By Mr. Hackett:

Q. What is the difference between a plan and a system?—A. We will not quarrel about that.

Q. I think we had better not?—A. The answer to the second part of that is that I think there are two instances of where actual action has been taken based upon what you might call, if you like, my idea. The first of these was for a very limited period of time, and was referred to in my previous evidence—I think it was in Austria in 1923. That only lasted for about three months, and during that time Austria was extremely prosperous, which was followed—

Q. Followed by bankruptcy, was it not?—A. It was followed by many things, not due to—

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Q. But culminating in bankruptcy?—A. No, on the contrary—

Q. Just a moment.

Mr. MERCIER (*St. Henri*): Let him answer.

Mr. HACKETT: Just a moment. My friend Mr. Mercier will soon have an opportunity to ask questions.

Mr. MERCIER: There is so much hesitation that we do not understand.

By Mr. Hackett:

Q. In the meantime, I want to know whether or not Austria, as a country, became a defaulter about eleven years ago?—A. Not as the result of the operation—

Q. We are not going into that. I am asking you whether or not Austria, about eleven years ago, became a bankrupt country?—A. She was made bankrupt by the League of Nations.

Q. Yes. That was shortly after your system had been applied to its finances?—A. My system was not applied to its finances.

Q. You have told us that—not your system, but your plan was applied to Austria?—A. One feature, with great success. Now, may I finally answer the second part of your question? There has been a second use of these ideas and it is going on at the present time.

Q. Where?—A. Japan.

Mr. BOWMAN: What is the second feature?

The WITNESS: The feature is not one I should recommend, but it is undoubtedly, based on my ideas, and that is the use of the national credit to sell exports below cost and thus capture external markets, and the result has been so remarkable that the increase of Japanese exports has been fifty per cent in the last year.

The CHAIRMAN: With the demoralization of world trade.

Mr. MACMILLAN (*Saskatoon*): And the wage earner gets a cent and a half for making a pair of boots.

The WITNESS: That, of course, is the orthodox answer to the phenomenal advance in Japanese trade—that it is due to very small wages paid to Japanese labour. Would you like that?

By Mr. Hackett:

Q. No. I would like to ask you this question. You have said that some features of your plan are being applied at the present time in Japan?—A. Not as I should recommend them in Canada.

Q. Those features which are in application result in the selling of goods by Japanese producers for less than cost; is that what you said?—A. Financially.

Q. So that if a case of Japanese goods cost in terms of Canadian money $100, the application of some phases of your plan enables the Japanese to sell those goods for $50 or $60?—A. The idea is broadly that.

Q. Now, if a case of Japanese goods cost $100 and the Japanese producer sells them for $50, who makes up to the Japanese producer the $50 that he does not get back when he sells his goods?—A. The $50 is created by monetizing the real wealth of Japan in exactly the same way the banking system monetizes the real wealth of Canada, when it issues a loan against a mortgage.

Q. Let us get on with the Japanese.

The CHAIRMAN: In other words the tax payer pays the shot.

The WITNESS: On the contrary, the tax payer does not pay it.

By Mr. Hackett:

Q. Somebody gives the Japanese producer the $50 which he has lost in selling for $50 goods which had cost him $100 to produce?—A. Fifty new dollars, of which the real wealth already exists, are monetized and paid out.

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Q. Could we say, in a homely way, that somebody—and we will inquire in a moment who it is—gives to the Japanese producer the $50 which he lost in selling for $50 goods which had cost him $100 to produce?—A. Nobody gives it to him; they are created on his behalf.

Q. They are created? You are using the word "create", I suppose, in the biblical sense; that is, bringing something out of nothing, is that it?—A. Would you allow me to read—

Q. Just a moment. I will allow you to read anything; but I want you to tell me if you are using the term "create" in the sense that something is brought into existence out of nothing?—A. Will you allow me to answer that—

Mr. MACKENZIE (*Vancouver Centre*): I object to the method of cross-examination. We have had several witnesses before this committee since we commenced and every single witness was given absolute freedom to read or quote any statement in support of his stand.

Mr. HACKETT: Mr. Chairman, I do not wish to prevent Major Douglas making the most exhaustive and satisfactory, to himself, answer; but I have asked him whether a term he is using—the word "create"—has a definite significance, and it should be helpful to him, as well as to the committee, to know the meaning that he reads into the word "create". Does he mean the bringing into existence of something out of nothing?

The WITNESS: Will you allow me to answer in the words of an author? The author is the Encyclopedia Britannica, 14th edition: "Banks lend money by creating the means of payment out of nothing." That is the first.

By Mr. Hackett:

Q. That is an opinion written by whom?—A. The Encyclopedia Britannica.

Q. Oh, no, the Encyclopedia Britannica does not write opinions. Did you write the opinion?—A. I did not. Here is a further opinion, accepted throughout all the banking world—H. D. McLeod on the "Theory and Practice of Banking:—"It is commonly supposed that the banker's profit consists in the difference between the interest he pays for the money he borrows and the interest he charges for the money he lends. The fact is that the banker's profits consist exclusively in the profits he can make by creating and issuing credit in excess of the liquid assets he holds in reserve, and in exchange for debts payable at a future time." So that that is the sense which I attach to the word "create."

Mr. BOWMAN: That is not an answer to the question.

By Mr. Hackett:

Q. Now, Major Douglas, after your excursion into the Encyclopedia Britannica, can you tell the committee whether you have used the term "create" to mean bringing something into existence from nothing?—A. In exactly the same sense as the Encyclopedia Britannica uses it.

The CHAIRMAN: What do you mean by the same sense?

The WITNESS: Exactly the same sense.

By Mr. Hackett:

Q. So that when the Japanese producer has received, for the goods which it cost him $100 to produce, $50 from their sale, from some realm, out of chaos, he has got another $50, the paying of which has made nobody poorer?—A. Is it "out of chaos" when the banker creates it? I think that was suggested by some story—

Q. Somebody has told a rather amusing story. But that is rather away from the point. I want to know if the $50 which goes to the Japanese producer to make him whole on the cost of his product costs anybody anything?—A. They

cost exactly the same, more or less, as if they were created by exactly the same process by a banker.

The CHAIRMAN: They are created out of the public credit?

The WITNESS: They are created out of the public credit.

By Mr. Hackett:

Q. They are created out of the public credit? Is public credit manna from on high, or is it a never-failing fountain from which compensation for goods may fall or flow?—A. Well, sir, if that is your definition, I should not agree.

Q. You have found $50 somewhere to make good the $50 loss to the Japanese producer, and I want you to tell the committee from where that $50 comes —A. It comes from the monetization of already existing real assets.

Q. For instance, would the monetization of already existing assets mean a loan, guaranteed by a mortgage, a hypothec, or some kind of property that already exists?—A. Not unless you assume that the use or monetizing of real assets does not rest with the owner of the assets; it rests with a separate institution.

Q. I do not wish to be led down a by-path. You have talked of the monetization of existing assets. They are a finite quantity?—A. They are a dynamic quantity.

Q. Let us not bandy words; they are finite, a quantity with limits?—A. Yes.

Q. Are national resources an infinite quantity which may not be exhausted? —A. Over an infinite period of time, yes.

Q. I thought that time was finite. However, we must not bandy words.

Mr. IRVINE: Do not bandy words like that.

By Mr. Hackett:

Q. I would like you to tell the committee where that $50 comes from; if it is ever going to be paid back to the source whence it came?—A. Do you mean paid back in the same sense that when a loan is repaid to a bank it is paid back?

Q. I mean paid back in the sense that it has been given in payment to a merchant; and I want to know if the merchant is going to be, under your system, a beneficiary and nobody the poorer by conferring the benefit?—A. Well, in the form you have put it, I should say that under my system everybody would be the richer and nobody the poorer.

Q. Under your system you do get something for nothing?—A. On the contrary, you are enabled to use something which already exists, and which you are prevented from using by the lack of its monetization.

Q. Is it not a fact that under the Japanese plan the state makes up to the Japanese producer the $50 which he has lost in selling goods for $50 less than the cost of production?—A. Yes. There is very little doubt of that.

Q. So, then, the state is pouring into the pockets of its people money which it creates?—A. Yes, you might say that.

Q. And it is irredeemable; and is not paid back?—A. No. I do not agree at all.

Q. If you do not agree with that, how is it going to be paid back? When is it going to be paid back and by whom?

The CHAIRMAN: And in what form?

The WITNESS: It is paid back in a great many forms, but the first and most obvious way is through the agency of prices. That portion of it which is covered by prices goes back to Japan, goes back to the source from which it was created, and, on the principle that the repayment of every loan destroys a deposit, that portion of the money goes out of existence.

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By Mr. Hackett:

Q. Let us come back to the chap who had the goods, who produced the goods at a cost of $100. He sold them somewhere for $50, and the Japanese government gave him another $50 to make him whole on his cost of production—

Mr. McGibbon: Who returned that $50 to the taxpayer?

Mr. Hackett: To the source whence it came?

The Witness: It was not—in order to answer the aside—it was not collected from the taxpayer in the first place, you understand that.

By Mr. Hackett:

Q. I am afraid I do not understand; that may be my misfortune?—A. You surely understand it is not necessary to tax the taxpayer in order to create credit.

Q. I certainly understand it is not necessary to tax the taxpayer in order to print fiat money—I understand it is not necessary to tax anybody to issue paper with nothing in support of it?—A. Does a bank tax the taxpayer when it creates the money which it loans?

Q. I thought, Major Douglas, I had convinced you that, at least, inasfar as Canada was concerned, your assertion was entirely erroneous. You have admitted that you yourself do not know the facts inasfar as Canada is concerned. I think we will do well to stick to Japan?—A. I do not agree in the least that the deposits in Canadian banks were not created by the well-known process which do create profits. They were created, most unquestionably, either by the extension of loans, or by the sale, or by the purchase, of securities from the public.

Q. The savings of the people?—A. They came out of the original savings of the people.

Mr. McGibbon: Sometimes it came out of 6 inches of the soil.

By Mr. Hackett:

Q. There are a lot of people in the committee who wish to ask you questions. I would like you to tell me where the $50 which goes to the Japanese to make up his loss on goods which cost him $100 and which he has sold for $50, comes from?—A. They come out of the general credit of the country.

Q. And when are those $50 to be returned to the general credit of the country?

The Chairman: Or are they ever?

Mr. Irvine: The day after we pay our national debt.

The Chairman: Then the answer is never.

The Witness: Yes, I think Mr. Irvine made a perfectly good reply: so long as they remain outstanding they are the monetary equivalent of our existing national debt, and when they are paid back the national debt is reduced by that amount.

Mr. Sullivan: Do we pay interest on our national debts?

The Witness: Not necessarily. Do we get interest on those debts we have created? I think the answer is no.

By Mr. Hackett:

Q. Let us take an example which is a simple one and with which, I suppose, you are familiar. You mentioned Austria, and as an unhappy coincidence Austria went bankrupt shortly after indulging in the practice of those theories. Let us take another example, France at the time of the revolution. You, undoubtedly, recall that a theory was evolved about 1790 by which

assignats were issued on the security of the national wealth. The people were told that as the state had recently appropriated the accumulations of centuries which had belonged to the Church, that there was abundant security for this paper money; you recall that?—A. I do.

Q. And you recall that there were four hundred millions issued in the early spring of 1790 and in the late fall eight hundred millions more, and in the next year there were double that amount of assignats issued, and, ultimately, the number of assignats had increased to such an extent that the real value of the assignat disappeared. The currency, the paper money, that had been put out had absolutely no value, and France repudiated all its liabilities, and bankruptcy followed.—A. There are a great many things to be said about that, and I shall be delighted to go into it at great length, if you like. The first thing to be said about it is, there was a very interesting description of what actually took place at that time in that well-known book called "Monarchy or Money Power" which, I think, puts the matter in a slightly different light, as one of many struggles against an existing banking system at that time; but what is more fundamental than that is, that there was no real general increase of wealth taking place at that time which, in any way, corresponded to the increase in purchasing power. The fundamental difference between the situation which was in existence at that time and the situation which we have at the present time is, that our rate of production of wealth is now thirty or forty times what it was at that time, and, therefore, our rate of production of purchasing power ought, at any rate, to be very much greater than it was then, and that is the fundamental difference. Quite obviously, if you have a large number of tickets—as no doubt was the case of the assignats—in existence for which there is no equivalent real wealth which can be exchanged for them, then those assignats, or those tickets, whatever you like to call them, are nothing but tickets; but if you have at the present time—as you also must unquestionably have—a very large amount of wealth for which there are no tickets, and a still larger amount of potential wealth for which there are no tickets, then it is quite possible to have a largely increased purchasing power in the form of tickets if you like, which is all the assignats were—

Q. But it was, nevertheless, the monetization of the assets, the physical assets of the nation?—A. No. It was the monetization, or the attempt to monetize something which was of no use, which was not available.

Q. It was the monetization of lands, of mines, forests, of the national wealth, just as we have it here in Canada to-day.—A. It was not the monetization of wealth which was available for the use of the general public.

Q. It turned out not to be available, and that is why the currency dropped in value, and that is why the prices went up, and that is why they had to increase the speed of the printing press, is it not?—A. No.

Q. Let us go next to the Southern States, after the Civil War. They issued paper money against the assets of their land and they ended up in bankruptcy, did they not?—A. They may have ended up in something that is called bankruptcy.

The CHAIRMAN: They made default.

The WITNESS: They defaulted, but they only defaulted simply because they were not allowed to deliver the wealth that they could have delivered.

By Mr. Hackett:

Q. Then we have Germany. Germany, in 1923, I believe, attempted to monetize its national resources, did it not?—A. No, because in none of the cases that you mention did any monetization take place which does not at the present time take place by the bankers alone. So far as I can see the thread which is

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running through the argument is, that if monetization takes place by the bankers it is a perfectly sound thing, but if it takes place through anybody else it is bound to meet with catastrophe; is that the argument?

Q. No, I prefer not to call it an argument, I am merely attempting to test the efficacy of your plan. You have told us that by the application of your theory to Japan a Japanese producer whose product has cost him $100 may sell it in the markets of the world for $50 and that his government, by monetizing the natural resources of that country, will make up to him his loss. I am endeavouring to point out to you that France, the Southern States, and Germany have each attempted, in their time, to monetize their natural resources and that everyone of them has become a bankrupt.—A. Is there any question in any one of these things to which you refer in which the monetization shall apply to reduction of prices?

Q. I shall not attempt to answer that.—A. Because that is the whole point.

Q. No, may I suggest that it is not the whole point because the essential thing is, as you said in the last words of your testimony in chief, the problem is, whether the banks or the public shall get something for nothing, and your assumption was that somebody was going to get something for nothing.—A. I am not quite clear whether we are carrying on a debate with an attempt to score points against each other, or whether we are endeavouring to find some method by which those nine defects, which I assumed were admitted, which can all quite definitely be traced to lack of purchasing power, can be remedied. If you say that it is an insoluble problem to create sufficient purchasing power to distribute the goods which are available then, of course, I entirely disagree with you, but if there is in existence a better method of distributing the increased purchasing power, which is necessary to distribute those goods, a better method than I have to suggest, I can assure you that I shall be the first person to be delighted about it. What I am not prepared to admit is that the problem does not exist.

Q. I will agree with you that there is a problem, but I have understood that your statement went further than the pointing out that there was a problem. I am endeavouring to ascertain from you whether your solution has ever borne the test of experience, and whether any country which has attempted to apply it has not invariably failed, whether all countries which have applied it have not become bankrupt and repudiated all their liabilities?—A. The answer is, that never has a plan been applied which contains all the provisions which I have in various cases suggested to prevent the result of pure inflation —and pure inflation is, of course, practised by the banking system just as much as anybody else and is, in fact, being practised by the banking systems of numerous countries at the present time.

Q. You will remember, Major Douglas, we are talking about Canada— —A. Well, may I put it this way: I understand that—

Q. —and my brief rests there.—A. May I put it this way: Is it the fact that it is being recommended at the present time, that every effort shall be made to raise the price level in Canada; is that an orthodox banker's recommendation?

Q. I, with great respect, will not attempt to testify for the orthodox banker. What I am trying to do is find out whether the plan which you have suggested for Canada has any chance of bettering the position of the Canadian people?—A. That, I think, is the thing that can only be decided either by an extensive or even a limited trial, or by a jury.

Q. I understood from your testimony that you consider that your plan is still in the embryonic stage, that it has not been carried to the point of perfection which would warrant its application to any country, is that correct? —A. No, it is not.

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Q. You did say that it had not been carried to the point—I think I have your words here—"It is absurd to suppose that any final plan can be put over once and for all."—A. I should agree with that because of the opposition with which it will meet, from interested sources.

Q. That is from the banks?—A. Yes.

By the Chairman:

Q. Major Douglas, in the final analysis, your theory is based on inflation, limited I think you meant, of the national credit?—A. My theory, on the contrary, sir, has no connection with inflation.

The CHAIRMAN: Then I do not understand anything about it.

The WITNESS: Would you allow me to define inflation?

The CHAIRMAN: Certainly.

The WITNESS: Inflation is an increase in the number of monetary tokens accompanied by an increase in prices either more or less equivalent to the increase in monetary tokens, so that the ratio between purchasing power and prices is not changed to conform to the increase in tokens, and a proposal, for instance, to raise the price level in any country by means of the issue of further credits for production or anything else is a proposal for inflation, and that is the orthodox proposal of the banking system at the present time. Therefore, the orthodox proposal of the banking system is a proposal for inflation. Now, my proposals are proposals for the issuing of further purchasing power chiefly in aid of a reduction in prices, and consequently they are not proposals for inflation; they are proposals for an increase of purchasing power, which is an entirely separate matter.

By the Chairman:

Q. They go hand in hand, or is one the effect of the other, the inflation and increase of price level?—A. They go hand in hand.

Q. One is not the cause of the other?—A. Oh yes, certainly.

By Mr. McGibbon:

Q. How do you keep that relationship?—A. Well, you see we have had in actual operation during the past ten or eleven years the payment of articles from two sources, that is a fact, the general manufacturing and producing system has been selling to the public below cost; the difference between the cost of production and the price at which the public has bought, in general, has been made up from the private reserves of the producers, or by an increased overdraft with the banks. It is admitted that that has not produced a raise of prices otherwise we should not have been selling below cost. Therefore, it has been tested out that it is possible to sell below cost and to pay for the product from two sources without causing a rise in prices.

Q. That was not my question. I asked how you kept the increase in prices and your inflation together?—A. Oh no, you cannot keep them together.

Q. Then your policy falls down at once?—A. No, but mine is not a policy of inflation. The existing proposal is to raise the price level in this and every other country by increasing issues of money for production purposes which, it is hoped, will raise the price level, and at the same time issue more monetary tokens. That, according to my definition, is pure inflation, and that is exactly what I do not propose, but that is what is actually being done at the present time, particularly south of the line, within two or three hundred miles of here.

By Mr. Geary:

Q. May I say at once, Major, that your appearance is very welcome. I think that we are anxious—whether we agree or not with what you say—to have the benefit of your observations in this matter, and it is only for the purpose of

trying to clarify, in my own mind, your thesis that I am going to ask you a few questions. Can you give me a short answer apropos to all you have just said to this question of inflation. As we term it, deflation of currency tends in a way to attain the result which you think should be secured in connection with the revision of our banking system?—A. No, I am absolutely against inflation.

Q. That is to say, you would not advocate placing our dollar at a depreciated value?—A. Certainly not.

Q. You appeared here some ten years ago, I believe?—A. Eleven, I think.

Q. And before that you had been more or less advocating the principles which you have been enunciating here?—A. Yes.

Q. And persistently, may I add, you have continued to advocate them?—A. That is the case.

Q. And am I right in saying that they have been carried into works by yourself; your biographical sketch would indicate that you have done so?—A. Yes.

Q. And those works have met with written criticisms which we can find in works of others?—A. That is so.

Q. So that, so far as discussing your plan is concerned, we have the benefit of your own study of it and the benefit of those who find fault with it who have also set out their reasons?—A. That is the case.

Q. And that we can say for ourselves that you have suggested nothing in advance beyond what you have advocated before?—A. Well, I did place before you certain proposals, or a certain proposal which is not found anywhere else, this proposal, for instance, covering New Zealand and which, I specifically say, is only part of what I think should be done. They are part of a plan, if you like to put it that way.

Q. Am I right in saying this, that you have not to-day elaborated your whole plan?—A. I think you are correct in saying that.

Q. What you have given is that part of it which might be applicable to the revision of the Bank Act here?—A. Yes.

Q. And, in that regard, you have given us your views in regard to the New Zealand situation which you say we may have by simply translating New Zealand into Canada for our benefit?—A. That is correct.

Q. Then am I right too, in understanding that you do not profess that credit is a creation of nothing out of nothing, or out of something, by a bank?—A. Credit, of course, is a very unfortunate word which has been imported into the lore of "Bankenclature"; it has, as a matter of fact, a very good authority; I have used it before, and if you will realize that I am only using it in strictly the technical sense I will use it again. There is one sense, and it is in this sense in which credit is correctly used, and it was used by Saint Paul when he said that credit is the substance of things hoped for, the evidence of things not seen.

Q. Was that before or after his conversion?—A. That was after his conversion on the basis of his inherited aptitude for the subject.

Q. I am only talking of credit extended to persons by way of cheques?—A. For the purposes of that aspect of it, the word "money" I think is much more correct.

Q. What you mean is, that what should be done, or what is done by the banks is the making of public wealth a medium of exchange, and that the bank is making this medium of exchange out of public credit or public wealth?—A. Yes.

Q. That is, it is monetizing public wealth?—A. I do not want to take up your time too much, but a very important matter is involved in the use of your words "the medium of exchange." There has taken place in the last one hundred years a complete change in the method of production. The old individual production system was the production of wealth in various forms by every individual or small producing unit, and money was correctly described

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in those days as a medium of exchange. A man did exchange the things which he produced himself—a surplus which he did not want for himself—for moneys, and then he exchanged the money with somebody else for something which somebody else produced, so that it was quite possible that to a money system which worked on the assumption that money was primarily a system of exchange, there were theoretical objections more or less at that time but they were not marked. However the modern production system is something quite different. By the use of large plants, and that sort of thing, the production of wealth now is an analysed process which is only synthesised in a general pool of wealth which may be described as something, if you like, the market, and in particular this wealth is being more and more produced not by human labour but by such energies as water power, and so forth and so on, so that the primary function of money at the present time is not for exchange between man and man, because, incidentally, his labour is being less and less wanted and his product is not exchanged between himself and his neighbour, it is put into a central pool, so that the extent to which the definition of money as a medium of exchange is true is decreasingly small. It is more and more an effective demand on a central pool of wealth and less and less a medium of exchange, and that is something which I think is very important to bear in mind in considering what we want to do to get this central pool of wealth drawn on by the general public. You do not want to arrange a medium of exchange between you and me, you want to arrange some means by which we both can draw on the central pool of wealth.

Q. Will you improve that by telling me by what means you can draw from the central pool?—A. Well, you draw from the central pool of exchange, of course, by what we commonly call money, and the money is now issued from a central source, that is to say the banking system. The banking source is not the same source as where the wealth is produced, nor is the system the same system.

Q. Are you distinguishing between money as simply currency and money in the broad sense?—A. No, no.

Q. Well then, what you say I gather is, that the bank now has the power of monetizing wealth?—A. This central pool.

Q. And has it in its own hands?—A. Yes.

Q. And to that you take objection?—A. Yes.

Q. I am right in that?—A. Yes.

Q. But that central pool must be drawn upon?—A. Yes.

Q. And you propose that the banks should not do the drawing upon that central pool but that some other agency should?—A. No, I have no specific views on administration at all, no dogmatic views. So far as I have views, I am all in favour of letting the existing banks run the business. What is fundamentally at stake is the assumption that this monetization which the banks do undoubtedly carry on—the creation of purchasing power—is a creation of purchasing power in their own favour solely, and, as I see it, they do not want to turn it over to the government, or hand it over to the public except on their own terms. The result of that assumption and that state of affairs is, that quite beyond all discussion, the assumption is made that all production belongs to the banks since they alone create the effective demand which will cause that production to be delivered, and they claim the ownership of the effective demand which they create.

Q. Then is it your view that the banking system as at present constituted would be sufficient if it were controlled in some way by legislation, or would you like to set up another change, by way of legislation?—A. I do not believe it is the least necessary. I think the existing mechanism is excellent. I think the banks are marvellously well run institutions but I am not in favour of letting them do the job on the policy that they pursue, as a matter of public interest.

Q. And you have outlined the policy which you think should be adopted in that regard?—A. I have outlined, I think, the first step of such policy which I might, perhaps, say involves no interference with the administrative processes of any industry. It merely gives the public the purchasing power to get the goods, but in addition to that I think it does contain frankly a slight challenge to the existing banking system, that this situation would most preferably be relieved by negotiations.

Q. You have outlined then, in the memorandum, applicable to New Zealand, all your suggestions in regard to remedying the state of affairs to which you have called attention?—A. At the moment.

Q. So we can take it that that is your whole proposal in that regard?—A. At the moment.

Q. But that is only part of your general plan which must be followed by other proposals, of which you have not given us any inkling to-day?—A. That is the case.

Q. Then will you just clear my mind on one point: Can the banks of Canada create currency, as distinguished from credit, indefinitely?—A. That is merely a constitutional and legal question and not a question of techniques at all.

Q. Does it concern your thesis at all?—A. Not very seriously, no.

Q. Then I want to take an example that you gave us, of a bank buying a bond for which it gives its cheque. That cheque, I am assuming, is cashed and the company keeps the money in its vault, or it pays it out for labour and material?—A. Yes.

Q. In either case, it is sometime before it returns to the bank, but you say ultimately it does return to the bank in the form of cash deposits?—A. That is the case.

Q. I am assuming that the company pays its wages in cash, and that the man in turn who gets those wages pays the storekeeper, and so on, and ultimately it comes back as a deposit of cash by the storekeeper?—A. Yes.

Q. And the bank, then, is under obligation to give him that cash at any moment?—A. That is the case.

Q. Then will you please tell me why it is that you say the bank gets that bond for nothing?—A. Well, I think the generally accepted position is this in most Westernized countries at the present time, that for every unit of legal tender represented by their dollar note, we will say, or two dollar note, or whatever it may be, the bank creates about nine to ten times that amount of credit money. That I think is an accepted fact. It is certainly accepted in the States. It has been given in evidence before the Senate and Congress half a dozen times, and I do not think it is denied by the bankers themselves. So, for instance, if you have ten dollars worth of gold—you yourself—that ten dollars worth of gold is worth, to you, ten dollars but, to the bank, it is worth one hundred dollars, and the explanation of the situation is that which I think has so frequently been given that there is a limitation on the amount of credit which can be created by an individual bank, but there is no limitation on the amount of credit that can be created by all banks together.

The CHAIRMAN: Gentlemen, we will adjourn till 4 o'clock.

The Committee adjourned at one o'clock to resume at 4 o'clock.

AFTERNOON SESSION

The committee resumed at 4 o'clock p.m.

The CHAIRMAN: Now, gentlemen, will you come to order. At the noon adjournment Colonel Geary was examining the witness.

By Mr. Geary:

Q. With your permission, Mr. Chairman, and gentlemen, I have only a few more questions I would like to ask. Admitting for the moment, Major Douglas, your proposition that a greater amount of deposits have come into existence by reason of a loan made by the banker, then, what is the basis of the loans made by bankers?—A. The ability, on the one hand, and the willingness, on the other, of the general community to give those loans a value in goods and services.

Q. Then, is the willingness of the community testified by their giving security to the bank?—A. No, I should not say that; the question of giving collateral security for a loan does not effect what happens when a loan is given.

Q. Is it the practice of the bank in making a loan to take security?—A. Yes, undoubtedly.

Q. Which may be by a bill of exchange, or shares, or different ways?—A. Yes.

Q. And even where the bank does not take securities, and loans money on credit it probably looks to the realizable assets of the customer?—A. Oh, unquestionably. In other words, by lending the money it creates a loan on the customer's real wealth.

Q. It seems to me—I wonder if you will agree with me—in this process what the bank does is turn the real wealth into money; is that true?—A. No, I should re-phrase it slightly—that what the bank does is create a financial equivalent of wealth. It does not turn wealth into money; it creates a financial equivalent with wealth which already exists for the most part, and that financial equivalent is a claim upon the wealth which already exists.

Q. Yes. I fancy we are saying the same thing—I, in a colloquial way, and you, in a rather technical way. Am I right in this, that the borrower provides the real wealth and the bank provides the liquidity?—A. Well, that is on the assumption that the loan is really based only upon the wealth which is the security for the loan. That is not quite true. The money which is created by the banks for the purpose of a loan against that security is not merely a demand for the wealth which the money is created against, but it is a demand for any wealth; so that it is really true only to say that the collateral security is simply security for the loan, but that the money which comprises the loan is created against the general credit of the whole community, not against that individual.

Q. Yes, I am not quarreling about that.—A. It is very important, as a matter of fact.

Q. In specific real wealth or general real wealth, you prefer to believe it is created against general real wealth?—A. Yes, that is right.

Q. And when the banks provide its liquidity, as I call it, it is liquidity that is acceptable as a means of payment to be transferred between different persons?—A. Yes. It is what I was discusing with you this morning, I think; it forms the only means that we know of drawing upon the general wealth.

Q. Now, I have written a question which, with your permission, I will read to you. I hope it is not too long; perhaps it is not too good either. Is not this your contention, at the most, that the bank, through the fact that it has built up a faith in itself, a credit—I might interject there, whether apostolic or not—is in a position to lend to, and does make liquid, the real wealth of the customer?—A. It does not do anything to the real wealth of the customer; the customer's real wealth is exactly what it was before the loan is made. What it does is

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by basing a loan on the customer's specific wealth, to issue to him a draft upon the general wealth of the community, and claims that as its property.

Q. That is the distinction you drew a moment ago, and we rested that.—A. Yes.

Q. You are making a distinction as between specific real wealth and general real wealth?—A. Yes.

Q. Now, this interchangeability is effected by means of cheques?—A. For the most part, yes.

Q. Which is really an order on the bank to change a deposit from one person to another?—A. That is pretty much what it does.

Q. In that view, while we have the transferability arranged, after all, the deposit is the important thing, because it does not avail much to afford the means of changing the location of a thing if you have not got that thing?—A. Quite.

Q. In a banking system it is the *sine qua non,* almost, of its work that deposits should be almost immediately obtainable by the depositor if he comes for them?—A. Yes, for the most part; certainly a considerable portion of them should be. Of course, we have short time deposits and things of that sort.

Q. Yes. We will bear those differences in mind; but the bank must be ready to pay—theoretically, and in practice it works out that way in this country at all events—at any time, any number of its depositors who come to it for repayment of their deposits?—A. Quite so.

Q. And that applies no matter whether the deposit is a deposit of currency or a deposit made by a bank loan?—A. It is presumably always payable in legal tender, which is currency.

Q. When a bank requires the funding of a great number of deposits, it requires a great deal of cash, and maybe it requires more cash than it has. How does it provide itself with the means for reimbursing its depositors?—A. Well, of course, the exact mechanism varies in different countries, but the general tendency is to discount its liabilities of all kinds with some banker's bank, as, for instance, the Federal Reserve Bank in the United States or the Bank of England in England and, in that way, increase its legal tender. In England, the system is still furthered by the fact that the Bank of England finances the government through the Ways and Means account, and the Ways and Means account—for all practical purposes it is nothing but an I.O.U. from the government to the Bank of England—and this I.O.U. is treated by the Bank of England as cash, and on the basis of that that increases the Bank of England available cash, as you might say, by the extent of the amount of the I.O.U. from the Ways and Means account to the Bank of England; but, of course, ultimately, so long as the mechanism is in order the thing ultimately comes back to a number of notes which are available for putting into circulation.

Q. Then it may call on its borrower to make good the loan?—A. Well, as I said at the Canadian Club Saturday, no bank, on the principle on which banks are run at the present time, could possibly meet its liabilities at one time if they were all presented at once.

Q. We have not had that difficulty yet. I am just assuming the case where they must get a good deal of money. I am not thinking of a "run," so to speak. What I want to get at is this. The bank does keep some of its money out on short term obligations so that it can get it in quickly?—A. Quite.

Q. If it comes to that point, and gets in its loans, gets in that money it loaned in order to pay depositors, is it not really the money that was loaned actually that is brought back to pay the deopsitors?—A. No. The payment of the loan destroys the deposit.

Q. I know that; but it puts the bank in funds to pay its depositors—the depositors who demand payment?—A. Well, it does not put it in funds in the

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strict sense of the word. What it probably does, may do, is to decrease the ratio of its liabilities to its legal tender, but the actual repayment on the loan actually destroys a deposit.

Q. Yes. That is a statement. I have heard that statement made before?—A. There is no doubt about the fact.

Q. I am trying to get at a specific instance where these loans were so arranged that a great proportion of them are readily realized and you can get cash; those loans come back and pay off deposits?—A. Something of that sort happens yes; it will depend upon the exact amount in the bank.

Q. Why is it that it is not a deposit that was loaned?—A. It is not a deposit that was loaned? Because the repayment of the deposit, as I said—the repayment of the loan—destroys the deposit.

Q. Oh, yes, I know. I am still trying to see your point of view that the deposit never was loaned, and still when he gets his deposit back it is paid to the depositor, and he wants it in cash?—A. Well, I think by far the simplest way—I see what you are getting at, sir—I think by far the simplest way to get at the actual facts in the case is to consider what always happens on the very rare occasions in modern history where we do have a large and simultaneous run on all banks together, as, for instance, did occur in England, in 1914, and the deposits at that time in the joint stock banks were, in round figures, about one thousand million pounds, and, at that time, of course, they were all repayable in gold. There was a simultaneous run on the banks and they paid out about one hundred and eighty millions in gold, which was about all there was in the country. There remained about eight hundred and seventy millions of deposits which could not be paid at all; there was nothing to pay them with. The point is, of course, this, that the only thing that was ever deposited in the banks originally was gold, so that the deposits, you might say, under those conditions at that time, were one hundred and seventy millions. But those deposits had increased from one hundred and seventy millions to one thosuand millions and the increase from one hundred and seventy millions to one thousand millions represents the difference between what was originally deposited, and what was created by the present system.

Q. I think I got all that. I quite understand there is a wide difference between deposits of currency and the deposits we have been talking about, bank deposits. I am not going to labour this point at all, but AB gets a deposit by virtue of the bank lending him money?—A. Yes.

Q. He is entitled to it?—A. Yes.

Q. The bank in this case lends money to CD. AB comes in and says: I want my deposit. What do they do? They get it from CD, if they have not the cash. Surely a deposit has been loaned to him?—A. No. When they loan—I want to get my initials right—AB $100 they do not say to CD, "I have loaned AB your $100; therefore, you cannot draw out $100." Both AB and CD can draw out $100. So long as AB, CD, EF and the rest of them don't simultaneously demand, not only their deposits, but their deposits in currency, all of them can be paid.

Q. Well, with all respect I think that supports my view. I may be quite wrong. I fail to see why it is that you say with regard to the deposits that are created in the amount of the loan, that it is not the money that is loaned. I am not speaking of currency; I am speaking of the deposit. When the loan makes a deposit, that borrower is entitled to go and get his money, is he not?—A. The man who receives the loan is entitled to go and get his money. The money is loaned, certainly.

Q. And so it goes on, each one is entitled to go and get his money?—A. That is right.

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Q. And if there is no deposit, or no security in place of a deposit which has been loaned, he cannot get his money?—A. Oh, yes, he can; because so long as he does not demand it in currency—

Q. Well, some of us do; it seems about the only way?—A. Oh, yes. That is absolutely the whole point. The whole business is worked on the assumption—it is worked on actuarial figures—that under normal conditions only a certain percentage of all deposits which are demanded, will be demanded in cash.

Q. I understand that perfectly well?—A. Yes. Those are the facts. I can't see quite what the point is, beyond that.

Q. I see the point that you are making, Major Douglas, which is simply this, that the bank loans out its money or takes deposits and loans upon the fact that there will not be a call for it within such a period of time that it is not able to make it good by calling in its liquid assets and so on?—A. It does not have to call in any assets at all. Taking the banking system as a whole, it does not have to call in its loans at all for the purpose of paying deposits which are created by the loans, so long as those deposits are not more than about one-tenth asked for in legal tender. If they are, it has to call loans from everybody until the total deposits shrink down to the total amount of legal tender that it has, which will, of course, be an impossible situation.

Q. In the meantime, each depositor has got his money and he has got it largely out of the man who has borrowed that money from the bank?—A. Yes, the depositor has got it from the man who borrowed the money from the bank. That is quite right.

Q. With all respect, it seems to me still that the bank is lending deposits. You have not convinced me as yet?—A. There is no real—no general—difference of opinion on the facts. The Macmillan Committee I think has established that, apart from half a dozen other authorities.

Q. I remember reading that; I hardly agree that that is quite the result of the committee's report. That is all I want to ask you about that. I have, since adjournment, read your New Zealand proposals. Have you any comments to make on the returns furnished by the banks under legislation in Canada?—A. I have just looked at these, but I have not any comment at the moment.

Q. You have not any comment?—A. No, I have not had the time. I am at your disposal indefinitely.

Q. I thought perhaps it would be useful if you had any comment to make. Have you any comments to make on the amount of money that the banks have made in this country?—A. Exactly what meaning am I to attach to that?

Q. I thought perhaps your New Zealand proposals were directed to the proposition that the banks had made too much money out of the privileges or rights, whatever they may be called, that they possessed?—A. The actual distributed profits of the banks have always seemed to me to be the least objectionable feature of banking. I am not in the least attacking those profits. They may be a little high. Some people think they are. But that is not the point at all.

Q. Will you just say what it is?—A. Yes. It is the failure to monetize and distribute the monetary value of the real wealth which exists; and by not distributing all that monetary value, they make it impossible to draw upon the consumable goods which can be produced.

Q. Could that not be remedied by increasing the allowance of credit, or lending more money?—A. Not lending more money, no. That is exactly the point. Lending more money, unless you lend it entirely without interest charges,—in which case, for all practical purposes, it is a gift,—merely intensifies the trouble from which the world is suffering at the present time, and that is her debt. Each of these loans, of course, is a debt, when you consider it as a loan from one separate organization to the general public, and to increase this is to increase the amount of debt under which the public labours.

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Q. How would they do it? How do you propose they should?—A. In regard to these New Zealand proposals, or generally speaking?

Q. Generally speaking. You say it is not by lending. You would not suggest they lend more money in order to achieve the object you stated. They would do something else. What do you suggest they should do?—A. Very much in general, the conception I have of the proper functions of banks is as very admirable account keepers who would provide the public with purchasing power, making a proper charge for their services in actually creating purchasing power; but having once created the purchasing power, it would be regarded as the property of the public and not the property of the bank. That is to say, it would not be repayable loans, so far as the banks are concerned. No doubt it would be subject to certain proper considerations of writing down, for which we have the requisite mechanism in various ways; but the difference, the very fundamental difference, is that at the present time, when these credits,—these blocks of purchasing power—are created by the banks, they are created by the banks as if the money which they represent were the bank's property, whereas, from my conception, the money is not the bank's property. The bank should properly be paid for its services, its very admirable services, in the book-keeping transactions that are concerned, but it has no claim whatever to the repayment of the loan. The loan is not a loan of its own money. The thing that it loans is new money, which is created on the basis of the general wealth of the country.

Q. Can you suggest anything that could be inserted in our Bank Act that would help towards the solution that you have indicated?—A. Well, I can, of course; but I cannot suggest anything which you are in the least likely to be able to put through, to be perfectly frank.

The CHAIRMAN: That is candid, anyway.

By Mr. Geary:

Q. I am just curious about your plan?—A. Well, the plan requires an admission, in the first place, that the money which the bank loans is neither its own money nor the money of its depositors, but is new money; and therefore it requires a decision as to whom the money belongs. To that, of course, for my part, I should give an answer to the effect that it belongs to the public.

By the Chairman:

Q. To the nation?—A. Yes, to the nation.

By Mr. Geary:

Q. And the effect of the loan will be produced by money distributed, but not repayable?—A. Not repayable to the bank as of right to the bank.

Q. But distribution by them, in some form, of assistance to moving goods and services; they supply the money but do not get it back?—A. That is the idea.

Q. They supply the money and get it back according to some arrangement, the particulars of which you no doubt would be glad to give us?—A. That is the idea.

Q. Then, in your immediate proposal as regards New Zealand, I see you take banks and insurance companies but no other companies. You take their assets, but no others?—A. No, because they have a monopoly on monetizing assets.

Q. That is your reason for taking them and no others?—A. Yes.

Q. What you say is that—I am going to touch one point and see how it works out—the bank carries in its assets a certain number of shares of com-

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mon stock. It carries them say at par or book value, what it paid for them. At a certain time those shares have an increment value, that is what they bought at 100 may be worth 120, and you propose to make a charge against the bank of 10 per cent, that is half the 20, and put it into "Suspense Account No. 1" that you set up?—A. Yes.

Q. Then the shares of stock drop next year from 120 to 80; do you do anything towards placing it back in the bank's hands?—A. I am assuming—with a fair amount of ground for assuming—that the figures at which the bank's assets are placed, taking direct assets and indirect assets, are always far below those at which they are really worth in the market.

Q. Suppose we say that the facts are as I stated them, then is the result as I have indicated it?—A. If the whole of the assets which are held by the bank have already been monetized to their full value, then that clause becomes ineffective, I should think.

Q. I see. I say, "I see," but I don't quite see?—A. I think that a very unlikely state of affairs to happen.

Q. It presents some difficulties. Then I think I have nothing else that I want to ask you. These are your only proposals to the committee, and you say they might be adopted without necessitating any further prolongation towards your plan?—A. I think that they could be adopted with advantage to everybody at the moment; and they would probably, as the result of their own working, suggest certain additions which would round out the whole plan, but they do not involve any displacing of the existing state of affairs.

Q. If that plan were adopted, it is self-sufficient; it requires no complementing later on by other parts of your plan?—A. No, I should not agree with that.

Q. It is an integral part of the same whole plan?—A. Yes.

Q. I was a little at a loss about that. I thought you said the other thing?—A. No.

Q. But we cannot go on with that really, without going into the plan that you have over and above that?—A. Well, I should perhaps not agree to that, because you are doing nothing there which is not actually being done at the present time. That is to say, you are only allocating those shares to the general public instead of allocating them to the banking institutions. What you do not do there is to prevent the difficulties which do arise at the present time, within the present system. But to deal with the present system requires further admissions on the part of the existing financial system.

Q. That is what I am getting at. Of necessity this plan, if adopted, has to be followed by some other part of your plan?—A. Not of necessity, because there is no change.

Q. It is desirable?—A. Yes, very desirable.

Q. You think it would be entirely desirable that we should not stop there, but that we should go on further?—A. I do think it would be desirable, but not necessary.

Q. All right, thank you.

By Mr. Irvine:

Q. I want to ask a few questions of Major Douglas. They have been suggested to me by the questions which have been put by other members of the committee, and therefore may not be in logical sequence but I want to be sure that I begin at the right place, so I would ask Major Douglas if he would care to state to the committee, in a few words, what he thinks the financial system is for?—A. Well, I have no doubt what it is for at the present time. It is for the benefit of the financial system. If you mean what it ought to be for, in my opinion it should be a method, first of all, of reflecting the facts of the producing system, the wealth producing system; and then a mechanism, under

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the direction of high policy, for the distribution of wealth which it accounts for. In its real essence, a sound financial system is primarily an accounting system, secondly a distributing system. The conditions under which distributon takes place are clearly questions of high policy. At the present time the existing financial system is not a correct accounting system of the wealth that actually exists; and it is, of course, a very erratic distributing system.

Q. Then I hardly need to ask the next question I had in mind which is: In your opinion, the present financial system is not doing what a financial system should do? It is not performing adequately the full functions of a financial system?—A. In my opinion that is quite undoubtedly so, and I think that is the growing opinion all over the world.

Q. Would you care to say, in your opinion, how, or to what extent, Canada could carry on successfully from the economic point of view, without regard to any other country, were she to adopt the main proposals which you have put forward in your thesis elsewhere?—A. Technically, I have no doubt whatever that Canada could carry on not only very well, but far better than she is doing at the present time, by the adoption of methods of that kind. But there is no getting away from the fact that a great deal of first-class ability has been devoted, in the past hundred years or so, to making it extremely difficult for the financial system of any one country to diverge from the general financial system, without being penalized by the international financial system.

By the Chairman:

Q. Could it be done?—A. It could be done, yes. It could be done. There is no question about that.

By Mr. MacMillan (Saskatoon):

Q. Successfully?—A. Yes, successfully.

By Mr. Irvine:

Q. In that connection, might I put to you an objection which we have been met with—those of us who make proposals similar to your own—that were we to adopt that in Canada, we would have great difficulty in paying our foreign debts. In your opinion, would we have any more difficulty, under your system, in paying our foreign debts than we have now?—A. Less.

Q. Would you care to say a little more about that?—A. Well, that is the sort of thing in which the question becomes one for close and continuous and expert examination of the detailed facts. I come to give evidence before you as an expert on the general question, just as I should give evidence as an engineer on the general question of the feasibility of building bridges. But if I were asked to say what particular kind of bridge were wanted at this place, and the details of that bridge, I should say, "Well, I want to make an exact survey of the site and of the considerations which affect it." That survey, from the very nature of things, I have not made. It is not possible for me to make it, without direction from the responsible authorities in Canada.

By Mr. MacMillan (Saskatoon):

Q. Did you make such a survey in New Zealand?—A. To some considerable extent, yes. So far as the question of debts is concerned, all I can say is this, that I can certainly put Canada at the present time—if I may put it that way—in a position to dispose of its unusable surpluses to greater advantage than it is able to do at the present time, by the adoption of slight modifications of its financial system. That is unquestionable.

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By the Chairman:

Q. Just apply that to our surplus of wheat, if you will, and let us see how it would work out?—A. Well, there are quite a number of ways. You will only probably want me to give you an example, and that is exactly by the method by which Japan is disposing of her surpluses at the present time, in competition. Japan is, broadly speaking, competing most successfully in the modern world in respect of the things which have the least direct labour in them. That of course, is a complete answer to the statement which is very frequently made that Japan is competing successfully because her labour charges are low.

Perhaps I might give you one special instance in which Japan is pushing out the rest of the world in regard to rayon, artificial silk. I happen to be in possession of confidential figures in regard to the direct labour charges on rayon, but I am not going to give you those exact figures; you can take it that the figures I am giving you are several times as large as the figures—I will not say how many times—but they are much larger; the direct labour charges in regard to rayon are less than one per cent of the normal selling price of rayon.

By the Chairman:

Q. That is to say, in Japan?—A. No, anywhere practically. Now, suppose you double the direct labour charges as between Japan and, we will say, the United States, you have increased the price by one per cent, that is all; and I do not suppose anybody here will suggest that you can capture the world market by selling one per cent below your competitors.

By Mr. Hackett:

Q. There is more labour than direct labour?—A. Direct labour is all that matters in this matter; the actual labour employed by the rayon industry is less than one per cent of the value of it—less than one per cent of the selling price of rayon.

By Mr. Morand:

Q. What about the other 99 per cent?—A. What about the other 99 per cent; you have the machinery charges, the overhead charges, the financing charges and things of that sort.

By Mr. Bowman:

Q. And you have raw material?—A. I think that comes into that figure.

By Mr. McGibbon:

Q. Suppose every country tried to do what Japan does, what would be the result?—A. You would simply have a very much lower price level, all over the world, and everybody could buy a good deal more with the existing purchasing power.

By Mr. Irvine:

Q. Suppose I just follow this up.

Mr. SULLIVAN: Let him get back to wheat.

By Mr. Irvine:

Q. I am not interested in continuing with wheat, any more than I am interested in continuing with boots, or shoes, or any other thing; anybody who is interested in wheat, or shoes, or those other things, would be interested in the question which I am going to ask now: you would not say, or am I right

in assuming, that your proposals are not now in operation either in Austria or Japan?—A. They are not.

Q. But that certain practices there being carried on are partly what you have proposed?—A. That is so.

Q. Well now, with regard to Japan; would you say that since she has been able successfully to expand her export trade through her financial manipulation, shall I say— —A. That is the right word.

Q. Could she not supply goods to her own Japanese population at a lower price?—A. Yes, unquestionably.

Q. And would that not be perhaps a better way of doing it?—A. It entirely depends on high policy, and the high policy which I think is unquestionably behind this tremendous expansion is preparation for the next war. From the point of view of high policy, she is justified in what she is doing.

Q. Now Mr. Hackett took you to the southern states, to the French Revolution, and to Germany, to prove conclusively that inflation was disastrous; did it require all that force to bring that about, sir?—A. No, I should have admitted it at once.

Q. I should have thought you might. Have Germany, Belgium, France and other countries greatly defaulted in their international obligations?—A. Well, that is a matter I should say of degree, in a good many cases they have, and in a good many cases they have not.

Q. In a good many cases they have to a certain degree; is it not so that in these countries they have now in practice the same financial system that we have in Canada?—A. Certainly.

Q. So that fear of defaulting need not trouble us with regard to any systems such as we have now?—A. All countries of the world at the present time can be broadly said to be operating on the same system, and they are all defaulting at the moment.

By Mr. Sullivan:

Q. We are not defaulting in Canada?—A. You default when you depreciate your currency.

Q. We can borrow at 100 per cent within 24 hours?—A. Your dollar in sterling at the present time is worth $5.13, I think, per pound sterling, and the pound sterling is supposed to be depreciated, so that viewed by the 1914 basis the Canadian dollar is depreciated; and that, of course, is a form of inflation.

The CHAIRMAN: That is a dogmatic statement, I would like you to prove that.

By Mr. Sullivan:

Q. I do not think that is right, you should ask the Deputy Minister, he is there, and he will tell you that we can borrow right away all the money we want, and, possibly, even at 3 per cent.

By Mr. Irvine:

Q. That is only to say that others have defaulted more than we have?—A. I think that is what it amounts to.

By Mr. McGibbon:

Q. When you pay your bills in the same units in which you contracted them, you are not defaulting?—A. If you pay your bills in the same units, within the same relative value, you are not defaulting; but if you pay your debts in something which is different—

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By Mr. Sullivan:

Q. We pay according to contract, don't we?—A. The contract as originally stated was, to be paid in gold, or in a currency based on gold.

By Mr. McGibbon:

Q. So long as you carry out your contract you are not defaulting?—A. Well, if you say that, then, of course, you have to say that it does not matter how many goods and services you get for a dollar, so long as you pay back the dollar you are not defaulting.

Q. If you pay back what you agreed to pay, in the terms in which you agreed to pay it, you are not defaulting?—A. Supposing the dollar is not the same dollar.

Q. You are only puttering by supposing?—A. Not at all; the only value of the dollar is what it will buy, that is all. If you borrow in a dollar which will buy ten pounds sterling of goods and services, we will say for—

By Mr. Irvine:

Q. Mr. Chairman, may I point out to Major Douglas in this connection that in September, 1931, we stopped paying in gold, which was virtually defaulting to our own people; and further may I point out to him that there are many municipalities in Canada which have defaulted entirely; so that, if the nation had not defaulted, certainly the municipalities have defaulted?—A. I have no doubt whatever of the fact that practically every country in the world is, except by mere technicality, in default; I have no question whatsoever.

By Mr. Sullivan:

Q. Even Japan?—A. Even Japan.

By Mr. White (Mount Royal):

Q. Excepting Canada?—A. Being in Canada I will not press the point.

By Mr. Irvine:

Q. Major Douglas, I would like you to explain your view with respect to the question of why the purchasing power supplied the consumers through the process of production does not enable the consumers to buy the output?—A. Well, the simplest way of understanding that is to realize that money which starts from the bank gets back to the bank, within a certain period of time. There is a cycle of circulation of money. We know as a matter of fact what it is in Great Britain, I do not know what it is in Canada, in Great Britain it is somewhere about a fortnight—something of that sort, the average rate of the money cycle from costs and back again to prices. Now, if all the costs which are developed in that period of time are recovered again through the agency of prices in the period of that cycle, there is enough money distributed to buy the goods for sale; but there are large quantities of prices which go into costs, large quantities and figures which go into cost, which were generated in a period of time outside of that cycle of a fortnight. Many of them, as we know, run back for fifty-five or more years; charges on bonds, on machine charges, and broadly speaking very nearly every charge except direct labour charges goes into the cost from a period outside of that cycle of a fortnight; these charges cannot be met by the revolution of a fixed amount of purchasing power in the cycle of a fortnight. These charges mean that the prices which were generated in that time are excessive to the purchasing power which is available to buy them. In other words, at the present time you are developing debts by the process of production at a greater rate than you can liquidate them.

[Major C. H. Douglas]

By Mr. MacMillan (Saskatoon):

Q. That is your "A" and "B" theorem, is it?—A. That is one form of it, yes.

By Mr. Irvine:

Q. You are aware, of course, that the orthodox financial viewpoint is that there must always be sufficient money somewhere in the country to buy all the goods that have been produced in that country?—A. I am, that is an orthodox theory.

Q. That is the theory now in practice?—A. Yes.

Q. And I think, if I followed your statement right, you declare that one of the chief weaknesses of the present financial system was that it failed to provide sufficient purchasing power to buy the goods that had been produced? —A. Quite.

Q. And you summarize certain conclusions which followed that, such as unemployment and poverty, and such-like calamities. Now, sir, might I ask you, I think some of our bankers here have declared that the conditions that you summarized there are not due to lack of purchasing power, but they are due to tariffs, and to a wilful public that insists on buying too much at certain times and then being unable to buy at other times; and to the world situation. Do you think, for instance, that if we had free trade we would have any more purchasing power?—A. I have no doubt whatever that it would not make the slightest difference in the aggregate.

Q. Before asking you more questions, in particular in regard to your proposals, I want to draw to your attention a statement which I elicited from one of the bankers here—I think it was from Mr. Dodds—in asking him a question about your system he said that you had been before the Macmillan Commission in London and had (I am not quoting) received there short shrift. Can you explain what happened, is that so?—A. On the contrary I was before the Macmillan Commission in London and I had very courteous consideration, and I think that everybody enjoyed himself very much.

By the Chairman:

Q. Did they commend your system?—A. They did not. It has been explicitly stated, I believe in Canada, that the Macmillan Commission considered my statement and that they rejected it. They did nothing of the kind. The Macmillan Commission had certain terms of reference; these were originally to consider the working of the existing monetary system with a view to making recommendations in regard to it, and they themselves narrowed these terms of reference so that they eventually read, to consider the existing monetary system on the assumption that it will be based upon a gold standard and to make recommendations in regard to it. They had no terms of reference which would enable them to offer any opinion whatever upon my own or any other suggestions which were not based upon the gold standard, which mine were not.

The CHAIRMAN: That is true here, too.

By Mr. Irvine:

Q. I was just going to ask the Major if he was aware that he was appearing in precisely the same capacity here?—A. I am afraid that is a matter for you really, I am doing what you asked me to do.

Q. Exactly, but I just want to give fair warning to you that if we do not put the Douglas system into operation next week, you will realize that we are not even considering it now, we are having the pleasure of listening to you giving us some lessons in finance; but we have no intention of paying any attention to it other than that?—A. I quite appreciate that.

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The CHAIRMAN: You have put the position very clearly, Mr. Irvine.

By Mr. Irvine:

Q. I think I did. I think you, however, said that unless we get certain sanctions there was no practical value in presenting a definite plan?—A. That is entirely my opinion.

Q. And that sanction had to carry with it certatin powers to make your plans effective?—A. Yes.

Q. From whom would you say such sanction should be obtained?—A. Well, the theory on which I understand Canada, in common with other Anglo-Saxon communities, is governed, is that the people are the sovereign power; that is the theory, I am not suggesting it is the fact. Therefore the sanction should be obtained ultimately from the sovereign power, the people—the power to enforce what you desire in regard to the financial system.

The CHAIRMAN: That is parliament, you mean.

By Mr. Irvine:

Q. I would like to have you give us a few explanatory words on your principle of social credit, which you advocate. What I want to get at is this specifically, when you propose either to reduce prices or give what I think you call a national dividend, I want you to explain to the committee the source from which that is drawn?—A. Well, that can be explained in two ways. One of the ways is, I think, expressed in the phrase " The unearned increment of association," and that can be explained I think, quite simply in this way—it is an extremely important factor in the world to-day, and almost a preponderent factor—suppose you have ten subscribers to a telephone system. Each one of those ten can communicate with the other nine. Now, suppose that an eleventh subscriber is connected to the telephone exchange. The other ten subscribers through no virtues of their own, and through no virtue of the eleventh subscriber, have obtained additional facilities. They can now, without any change themselves, communicate with ten subscribers instead of nine. The intercommunicability of that organization has been increased from nine subscribers to ten subscribers, without any action on the part of the original ten subscribers at all. The same thing is exactly true, of course, if you have ten men pulling on a load. If you have ten men separately pulling on a load they could each of them separately pull on that load, perhaps for a week, and never move it. If the ten together, utilizing a rope, joined their forces, they could move it; they could do something that ten separately could never have done.

Now, that association is the fundamental principle of the modern production system; and the rope or the telephone exchange, whatever metaphor you like to use, is represented by the modern production system using machinery and power and physical and chemical processes, and so forth. It cannot be said that the enormous increased production, which is possible, by this association, is due to the specific efforts of any single person; it comes from association. And the result of this thing is now so important that we are getting to the stage where a decreasing number of people, smaller in number considerably than those who are available, can produce all the wealth which is required by everybody. Now, the surplus wealth which is produced in that way is the property of the community by virtue of this: It has arisen out of this unearned increment of association. The real practical problem of the present day is not to distribute the earned increment of association, but to monetize the unearned increment of association, and to distribute it. That is the basis of the social credit idea.

By Mr. MacMillan (Saskatoon):

Q. You would print bills against it?—A. You are putting into my mouth, sir, mechanisms which I am not suggesting. The mechanism does not necessarily arise out of the general principles of my plan.

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Q. What process do you go through to monetize it?—A. At the present time you are monetizing a certain amount of this unearned increment of association, whenever the banks create money, whether they create money by printing their own bills, or whether they do it by creating loans. All I am suggesting is that that process be transferred to the public from the banking point of view, and not leave it with the banking system. I suggest this not because of any views that I hold on ethics, at all, but because you cannot utilize the tremendous productive power of the modern world unless you allow people to get the product, and you cannot let people get the product unless you give them the money with which to buy the product.

By Mr. McGibbon:

Q. In other words, you are going to conscript the brains, the energy and the intelligence of the people and distribute them to the masses?—A. On the contrary. The major portion of this modern production system is not due to the brains of anybody who is living at the present time; it is due to his ancestors. And there is no one of those present living people who can say that he is the sole owner of his ancestors' activities.

Q. I think you must say that they would be the sole owners of the major part, if they created it?—A. I do not agree at all. If you put the best geniuses, either of engineering or of finance, or of anything else, on a desert island in the Pacific at the present time, and allow them to exercise their genius for the next five years, how much would they produce?

Q. Put it the other way. Would you produce without their genius?—A. Quite a lot. The amount that the first class genius at the present time contributes to the production system, even though he be a very outstanding genius, is very small in comparison with what has come down to him as cultural inheritance.

Q. That is quite right, but a few rule the world. Take the masses, and you will find that a very few in the world to-day supply the initiating adventure and so forth?—A. I do not in the least want to check that. All I am suggesting is that it is not very much use having those geniuses and those people who can run the world, unless you allow the general world to benefit by it. If you are suggesting that the world to-day belongs to those few financial geniuses, and that the rest of the population do not matter, of course, I quite agree.

Q. I think the product of their genius and spirit and risk belongs to them to a great degree. You are going to commercialize it and distribute it free?—A. I am very interested in what you are saying, because it is a very reasonable point of view from certain aspects. You are under the stress of the idea that there is not enough to go around; and that because of the outstanding virtues of these particular people, whom you enumerate, they ought to have the first call, and the other people ought to have what is left. Now, if it were true in any realistic sense that these people could not have as much as they want practically, and yet there would be plenty for everybody else, I think I should be rather inclined to agree with you. But the real fact is that the trouble at the present time is not due to the fact that the rich are rich, and therefore the poor are poor. That is the only alternative theory to my theory; and I might suggest that if that theory is held, it is a certainty that the poor would want to have some of the riches of the rich. But my theory is not that. My theory is that there is a great deal of riches which are not available to anybody; and that it is possible to make those riches available to the less fortunate in the world, without taking anything from the rich. The trouble with the world at the present time is not that we are in a poor world, because we are obviously in a very rich world. We have a surplus of everything. I am going to say what I said in this very room eleven years ago: if you have ten men who are crossing the Sahara desert, and they have only two

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or three gallons of water to take them across that journey, then quite obviously the distribution of those two or three gallons of water is a matter of importance. If you put the same ten men in Lake Superior, then to argue about how many drops of water they are going to have is a waste of time.

Q. Neither one of them produces the water?—A. We have the water. The real basis of talking about these things at all at the present time is the admitted paradox of poverty amidst plenty. The real wealth exists at the present time, either potentially or actually. We have an unusable surplus and what we cannot do is to get this surplus over to the people who want it. My proposals are not to take wealth from somebody who has it, but to prevent wealth which either is produced, being wasted as it is being wasted at the present time all over the world, or else to make it possible for potential wealth, which can be produced and which is represented by unemployed plant and unemployed labour and so forth, available to the people who want it. My plan is not to take wealth, which is already in the possession of certain people and give it to the poor. That is the alternative theory. If you do not agree with my theory, you must hold that other theory; that if it is not true, there is not sufficient purchasing power, then your theory would be—and there is only one other theory—that the only relief at any rate is to take wealth from those who have it. That is not my theory. My theory is there is plenty of wealth, and therefore you do not need to take it from anybody. You can monetize the wealth which exists and give it to those people who want it.

By Mr. MacMillan (Saskatoon):

Q. Then coming back to your statement of monetization, when you monetize it you create purchasing power; is that true?—A. Yes.

Q. Then I suppose that is credit in the hands of the bank, is it?—A. That is a question of mechanism, what is commonly called credit.

Q. Then, if it is credit in the hands of the bank, a man goes into the bank and he borrows a certain amount of money and another man comes in and he says, I want a certain amount of currency—the two must work together— —A. In the working of the existing banking system, there is nothing fundamentally natural at all. It is simply a system like—

Q. Does not that bring you finally down to the turning on of the printing presses?—A. No.

Q. I cannot see how you can avoid it. Perhaps I am a little thick.

By Mr. Irvine:

Q. Mr. Chairman, I think that Major Douglas explained that the increase of wealth due to association in production is the basis for the national dividend which he suggests in his proposals; and I think another method of monetizing that increase of wealth in what you, Major Douglas, have called "just prices." I think you said to-day that in your method you would utilize that credit for distribution and reduction of prices. Would you care to explain that point a little? —A. Yes; it was raised by one of my cross-examiners this morning. It was said that there had been experiments in inflation at various times and those had been disastrous. With that I should entirely agree. The essential of what is called inflation, the distinguishing characteristic of what is called inflation, is not the creation of a number of additional tokens of money, but the creation of an additional number of tokens of money accompanied by rise of prices; and that rise of prices takes place for various reasons, but primarily because people find that products cost more money they would like to have more, and they raise prices; because people have money, they get the price, and you finally arrive at a state of affairs in which the actual purchasing power is exactly where it was before, because not only have your monetary tokens risen, but your prices

have risen in quantity, and the ratio is the same as it was before. But it is possible to apply the creation of purchasing power to the reduction of prices. That can be done by paying for an article from two sources. Now one source which is very familiar to the world, and which is used in many cases at the present time, is what is called the subsidy. For instance, it is being mooted at the present time, in unofficial circles, that British shipping should be subsidized to compete with foreign shipping. Assuming for the moment that that proposal were carried into operation, it would mean that British shipping would be sold to the actual purchaser, to the buyer of transportation services, at below cost. That would mean that the price of that service was lower. Now, in orthodox circles it is assumed you can apply that mechanism or that process only by raising the money which is going to pay the second source from which payment is made, by taxation; but there is absolutely no necessity of that at all, except on the assumption that you have already got more purchasing power that you have services available to meet that purchasing power.

You could raise that subsidy, if you like to put it that way, by creation of fresh purchasing power, or exactly the same thing that takes place when the bank creates a loan. And nobody has ever suggested that, if you subsidize, say for instance, the shipping service, the process of subsidizing the shipping services raises the price of the cost of shipping to the people who buy the shipping. It does not; it lowers it. And exactly the same thing could be applied to any form of goods or services, with the result that you could increase the purchasing power in the country by lowering prices in that way without making a loss to the producer.

By Mr. Euler:

Q. May I ask one question? I think we all admit that there is plenty of wealth in the world, and that the purchasing power is not what we should like it to be, but I should like to ask Major Douglas this: What is his practical scheme, or plan, for getting the purchasing power into the hands of those who want it, and cannot buy?—A. I gave you one this morning. I have given you three. I have given to the world, if you like to put it that way, three, but I am continually being asked that. Would you mind considering the plans I have given you?

Q. I am thinking in terms of the ordinary common citizens throughout the country who cannot buy the goods they would like to buy, which are in abundance in this country. Just exactly how would you get the money, or the purchasing power, into the hands of those people?—A. Quite. We will consider the scheme I gave you this morning. The result of that scheme is that every, let us say, Canadian, comes into possession of available stocks and shares in eventually practically every concern in the country, and the dividends on those stocks and shares become available to him as purchasing power to buy goods and services.

Q. From whom?—A. That is the first proposal.

Q. Who gives them to him?—A. Would you be good enough to read the plan I put before you?

By Mr. Donnelly:

Q. Referring to that point, I should like to know why you should not give them to people who own life insurance, to the insurance policyholders. They paid their money to the insurance companies and have made it possible for those insurance companies to make extra profit. Why should it not be paid back to the policyholders? Why should it be put into the hands of the general public; why this major discrimination in that way?—A. The point is not a very easy one to make clear, quite obviously, from the number of people who

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ask the same sort of question. Even the mutual insurance concerns which distribute bonuses only to their own shareholders always have large quantities of hidden and undisclosed and unmonetized reserves. Those unmonetized reserves are not available as a basis for the creation of purchasing power. What we want to do is to increase the general amount of purchasing power available. We do not want to take the physical assets which belong to those insurance companies away from them; we want to monetize them so that the monetized value of them becomes available as purchasing power against the general production capacity of the community. Have I made that clear?

The CHAIRMAN: What Mr. Euler wants to know is how are you going to get across the purchasing power to the man who is in need?

Mr. IRVINE: If Mr. Euler does not mind, I should like to go on, as I shall be through in just a minute. I am not going to allow questioners to "butt in" on me again, because I want to get through. I am very anxious, Mr. Chairman, for Major Douglas to show this committee that, if this committee were ready to adopt the plan, I personally have no doubt that the plan could be made in detail. It is correct to say at the present time our bankers have full charge of the monetary policy.

The WITNESS: I think broadly speaking that is quite true.

By Mr. Irvine:

Q. And the objective of the banker's policy to-day is not primarily to distribute the production of the producing system?—A. I think that must be undoubtedly true.

Q. That must be undoubtedly true. Then, if we were to change the policy of our financial system so that the power to create credits was taken from private bankers, and made social, as it should be, would there be any more difficulty in submitting a detailed plan of technique to carry it out than under the present system?—A. None.

Q. You are not advising any new inventions. You are quite as capable of producing a system or plan for that system as the bankers are for producing a plan for their system?—A. Certainly.

Q. If you were commissioned by the government to draft a bank act to carry out your proposals, you could do it?—A. With assistance, I could.

Q. I think you said, sir, that the proposal that you made here to-day was the first simple step which might be taken without the acceptation of the full proposal. I think also you indicated that so far as your proposals are concerned, the banks might still continue to administer even your proposals?—A. Personally I should be strongly in favour of it.

Q. The thing that would be altered, however, would be the policy I take it?—A. That is the case.

Q. An entirely different policy?—A. Yes.

Q. I just have one more question. I am very anxious, as I say, to see a plan adopted because obviously, the plan at present in operation is not working and we are very anxious to get another one, and I would like to know just how we can begin at this time. I am not now suggesting the details and the technique of doing it, I simply want to find out where we begin to do it; have we the right to do it, the sanction to do it, where do we begin?—A. That, of course, is coming down to constitutional questions, but I am very much inclined to say that the core of the problem at the moment is the British North America Act.

Q. What relationship do you say the bankers should have to the government, or the government to the bankers, apart from certain influences, what would be the relationship?—A. The relationship of the banks to the government

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should be the same as that of the heads of any other service of the country. And when I say "service" I regard the food distributing concerns just as much a service as anything else, and I feel sure that if a government found, that, let us say, the whole of the food distributing services of this country were first of all monopolized and then were so run that food was being held up and being destroyed, and that sort of thing, they would say "This is a matter of our sovereign policy, or sovereign right, and we will not allow it to be done." Exactly the same thing has taken place in regard to the financial system at the present time, and I have expressed my opinion before, and I will express it again, that it is the business of the government of this or any other country to say to the people who run the financial system of the country, or to the people who run the distributing concerns of the country: "We are not going to tell you how this is going to be done, but we are going to have it done." In other words, that their position as the sovereign authority in the country is not going to be usurped. That is what you have to do in order to get this thing done. It is not in the least necessary that they should know how to do it. The government should know what they want done; they want the goods over from the people who are producing them to the people who want them.

By Mr. Vallance:

Q. Major Douglas, I was very interested this morning in listening to you when you gave the illustration about exports from Japan, and I think you used the illustration of goods to the value of $100 in Japan being exported and the value received in Japan for any goods so exchanged being only half of the $100, that is $50?—A. Yes.

Q. Now, the question I would like to ask you is, if Canada were able to produce the whole of the world supply of wheat and sell it on the world market at half of the cost of production to themselves, what would happen?—A. The result of that situation would be the same as it is in effect in Japan, that by taking away all the surplus production as fast almost as it is produced, it makes it possible to extend the production so that the basis for the creation of fresh credits is always being expanded. You simply keep a lower price level all over the world and the existing purchasing power enables the world to buy more goods.

Q. Being an international character such as I know you are, you understand that wheat is the greatest problem that Canada is faced with to-day, that is to say, the distribution of her surplus wheat supply?—A. Yes.

Q. Now, would you suggest that we to-day follow the illustration that you gave this morning of Japan by putting 50 cent wheat on the market and taking 25 cents back for it?—A. I think that that would be a very much better thing than wasting the wheat.

Q. You said something, I think, in answer to Mr. Irvine here, about subsidizing consumption, that you would subsidize consumption?—A. Yes.

Q. You would subsidize consumption?—A. Yes.

Q. Well, as an economist, or a banker, or an authority on both, would you not in subsidizing consumption encourage production?—A. Undoubtedly.

Q. And could you visualize in Canada, for instance, the great prairies as you know them coming to the place where they could produce more wheat than could be consumed in all the world, perhaps?—A. Yes, I could visualize that situation.

Q. How would you handle that situation then?—A. I have considered that situation. It is a perfectly sound question to put to me, I may say, and I have no doubt finally that the result of putting my proposals into operation without anything else, the proposals that I have been discussing this afternoon, would be the means of bringing about that state of what is called prosperity, some-

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what similar to that of 1927 and 1928, that is to say unbridled production. Following on that I think I heard someone say "That is what we want," but I do not agree at all. I sympathize but I do not agree. Quite obviously, it is possible to be devoting too much land to the growing of wheat, and I think that one of the best ways of dealing with that would be to deal with the transfer of land.

Q. The transfer of land?—A. Yes, the transfer of land from one individual to another.

Mr. MacMillan (*Saskatoon*): What has that got to do with wheat?

By Mr. Vallance:

Q. What do you mean, Major Douglas, by the transfer of land from one individual to another?—A. What I mean is, transferring land to one individual who may know nothing about the growing of wheat.

Q. What would be the result if I should want to transfer some of my land to Mr. Mackenzie here, tell me what you want to do?—A. I want to deal with the transfer of land. That is to say, I would refuse to allow additional land to be transferred for the purpose of growing wheat.

Q. So that your financial control now is going into the ramifications of the commerce of the whole of the nation?—A. I think there is no doubt about it that some form of what is commonly called planned economy is inevitable, yes.

Q. Did I understand you correctly yesterday at the luncheon you said you were an anti-socialist?—A. Well, that of course, is entirely a question of definition. By socialism I commonly understand the nationalized administration of productive processes, and in that sense I think it will be quite correct to say that I am anti-socialist.

Q. Let us get back to production. You say that you would subsidize consumption. You do not then argue that by the subsidizing of consumption you would stimulate production?—A. Oh, yes, I said you would up to the point where nobody wanted the product.

Q. Now, it has been suggested that that is just a vicious circle; you subsidize me in the production of wheat, or in the consumption of wheat you are a subsidy believer?—A. No, I am quite open-minded about all these things. I would not let you have the land on which to produce it.

Q. That is neither socialism or dictatorship, what is it?—A. It is social credit.

Q. Then do you believe that the trouble up to the present has been that we have been subsidizing production by tariffs, if you like; you are not a tariff believer, are you?—A. No, I am quite open minded about all these things. I do not think I would agree that that is the cause of the trouble at all.

Q. You do not believe that by the subsidizing of production in many ways it has brought us to the pass we are at now?—A. No, I do not, most distinctly. I think I should say that what we have got to at the present time is the realistic side of it, that is to say, the production side. We have got definitely to the stage when there is enough for everybody.

Q. Caused by what?—A. Caused chiefly by the progress of what is called science.

Q. And encouraged through what?—A. Encouraged through the financing of production by the methods by which it has been financed up to the present time.

Q. Your solution then would be to apply those principles to consumption, is that it?—A. Broadly speaking that is so, yes.

By the Chairman:

Q. Unlimited production?—A. No, no.

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By Mr. Vallance:

Q. He says now that we have reached the point where we have probably produced all that we should produce. With increased production will we ever get to the point in consumption at which we now are in production?—A. Yes, I think so, quite easily.

Q. But for the time being we have got to pay a bonus to the consumption end.—A. I have no doubt whatever that that is the idea, it is the consumption end, that is the wrong end.

Q. I was rather surprised this morning when my good friend Mr. Hackett was addressing a few questions to you, you talked about a central pool, that we would take everything from a central pool. I could visualize the pool all right, and I could visualize it full, but what I want you to tell me is how did we get it filled so that we could all dip out of it?—A. Well, the position at the present time is that it is pretty full.

Q. How did we get the pool filled?—A. How did we get the pool filled?

Q. Yes.—A. Well, it came out of this modern productive machine.

Q. So that now the modern productive machine has filled the pool with a small percentage of people contributing to it, you would suggest now by your scheme that we could make all the pool available to all the people?—A. That is it, yes.

Mr. Vallance: Well, that is the system I would like to see brought into being.

Mr. Hackett: Mr. Chairman, I do not wish to ask any further questions, I merely want to make a suggestion. I think the committee would welcome the opportunity being extended to some of the bankers who are here to have occasion to put a few questions to Major Douglas at an opportune moment.

By Hon. Mr. Euler:

Q. I have only one question to ask. Major Douglas stated that he had already answered questions in connection with the New Zealand proposals. I have listened to Major Douglas with a great deal of interest, but I have not had an opportunity of reading those proposals carefully. I have read them only in a haphazard way just now, and I take it that his method of getting this purchasing power into the hands of the public is through the banks and the insurance companies, the declaration of certain dividends, and so on. Do you believe that by this method, which happens to be rather restricted, that result can be brought about, or can you prove to us that that would be in any way an adequate supply of the purchasing power which the people now need? Is there any relationship between the proposals here and the adequacy of your proposal?—A. No, it is not sufficiently adequate. In order to make it adequate it would require a compensated price to be added to it.

By Mr. Donnelly:

Q. With regard to your proposal that all profits earned by the bank over and above six per cent shall be applied to a reduction of overdrafts debited to customers of the bank, why not use such profits and apply them to deposits as well as to overdrafts?—A. Well, we are getting back to the same old question, as to whether the deposits create the deposits or the loans create the deposits. It was the people who made the loans, who took up the loans and made the deposits.

By Mr. Willis:

Q. Major Douglas, may I ask you what portions of trade and commerce your system would change? We are getting to the ramifications of your system. What other portions of trade and commerce would it change other than banking; you also mentioned the question of insurance; you mentioned the question of the

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transfer of land; what other portions of trade and commerce would it change?—A. It would not in itself change the general organization of business at all. What it does do, I think, unquestionably, as one of the last questioners elicited from me, is immediately to induce a very considerably increased production, in other words, it does bring back the happy days of 1926 and 1927. That is the probable result of it. I do not mean though that it is at all a desirable thing that the whole world should be covered over with factories, or even with wheat lands and, therefore, some means of dealing with that situation is necessary, but so far as the administration of businesses which are in existence is concerned it does not make any difference whatever. It merely enables them to go on working.

Q. Are you suggesting, Major Douglas, the control of factories as well as the control of lands?—A. You have the control of factories now.

Q. In what sense?—A. Well, you have Factory Acts, presumably, in Canada, dealing with hours of work; practically everything is controlled.

Q. That is in regard to working conditions, not in regard to the factory or its ownership. Would you change that?—A. Not in the least.

Q. In the case which you cited to Mr. Vallance, when Mr. Vallance was going to transfer his land to Mr. Mackenzie, you said you would prevent that. What would become of the ownership of the land in case of the death of Mr. Vallance, which we would all greatly regret?—A. I should not prevent the sale of the land, but I should say that the use to which that land should be put would be subject to overriding questions of policy. It is really a question of eminent domain which is a principle which is admitted practically over the whole of this continent and in England at the present time. There is no such thing existing at the present time as ownership except as a question of expediency.

Q. Coming down to the practical question, assuming that Mr. Vallance's land would only grow wheat what is going to happen to it?—A. Quite obviously you would allow Mr. Vallance's land to grow wheat and you would prevent the transfer of some other land which was not suitable for growing wheat.

Q. Major Douglas, you have some sort of system. I understand your system contemplates a subsistence to everyone?—A. Yes.

Q. A certain minimum subsistence to everyone?—A. Yes.

Q. How much is that subsistence?—A. Depending on what the system—I do not mean my system—can produce. I mean depending on what the producing system can comfortably produce, together with a willingness on the part of those who operate that system to produce it.

Q. Well, would that include food, clothing and shelter, for instance?—A. Certainly.

Q. And what else would it include?—A. I cannot say without looking into the powers of the production system in this particular country.

Q. Would those persons have to work?—A. Not if their work is not wanted, certainly not.

Q. What if it were wanted and they did not desire to work?—A. Well, that is quite obviously a question of sovereign authority, but I think that if you have a man who definitely does not want to work in the world, at the present time, you are very much better off without his work. There is quite enough available labour which wants to work without our being cluttered up with having to administer people who do not want to work.

Q. I think, Major, you over-estimate those who really desire to work.—A. I do not believe I do for the moment. I thing it is a complete fallacy that in a reasonably healthy population that any considerable proportion of that population does not want to work.

Q. Could you elaborate with a few more details, for instance, to tell us how I would get a share of Mr. Vallance's money, because he has plenty and I have

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none.—A. You do not get a share of his money at all. He keeps all the money he has got.

The CHAIRMAN: He is Scotch.

By Mr. Willis:

Q. Major Douglas, where does my subsistence come from?—A. It comes out of the fresh creation of money just as a bank loan does at the present time.

Q. You mean a new printing of money?—A. No.

Q. I must say that is still a little indefinite.—A. Well, may I suggest that the simplest method of answering that question for yourself and anybody else who wants to ask it, is not to ask me about the working of my system but to look carefully into the working of the existing system.

Mr. MCGIBBON: Oh, no, you are giving us a new solution.—A. I am not giving you anything that has not been actually tried in its component parts at the present time.

By Mr. Willis:

Q. That is precisely the situation, we have looked and we have not seen the light, therefore, we thought you were bringing us a plan or system which would help us, and of that plan we desire details.—A. Well, if you desire me to give you a series of lectures on how the existing financial system works, I shall be delighted to do it, but the existing financial system at the present time is continually creating fresh purchasing power without using the printing press.

Q. For instance, we have systems on this continent such as the N.R.A., the C.C.F. and other systems, and we have at least a certain amount of detail in regard to those. To my mind we have not laid the basis of your system. May I ask how it would affect government finance in this country?—A. Would it affect government finance?

Q. Yes.—A. Yes, it would make possible the practical abolition of taxation.

Q. It would make possible the practical abolition of taxation?—A. Yes.

The CHAIRMAN: All right, let us have it.

By Mr Willis:

Q. With all due respect to the Minister of Finance, Major Douglas, you should have his position now. How would your system affect railways in this country?—A. It would make them pay.

Q. In what way?—A. Because it would provide the general public of this country with the means to travel on the railways which they have not got at the present time.

Q. Well, what would you do with the present debt of the railways?—A. Well, I should make it earn sufficient money to amortize that debt very quickly.

Q. Major Douglas, will you have time when you are here to visit the Minister of Railways? Would your system or plan affect, for instance, the production of gold and its control?—A. I would suggest the institution of a survey of the teeth of the country. From my point of view, the mining of gold is only of importance to the extent that it is required for the stopping of teeth. Beyond its use in the arts, it has no value.

Q. You would not contemplate, for instance, the nationalization of mines?—A. Not of gold mines; it would not be worth while.

Q. Does your plan contemplate nationalization of anything in this country, for instance?—A. No.

Q. Your plan, Major Douglas, is practically in its entirety a monetary plan, is that right?—A. That is absolutely right.

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Q. Your system does not contemplate, for instance, what you might call a shirt system, like the Nazis or any other such system?—A. Absolutely not.

By Hon. Mr. Euler:

Q. Just going back to the question I asked, I think you said to Mr. Willis that the operation of your plan would ensure a comfortable subsistence for everyone, that is, if advantage were taken, perhaps to the full, of the national credit. Now, the system which you have proposed here, I think you said a moment ago, is not adequate. I think it would be desirable to have a system proposed so that it would be adequate in order that everybody would have a complete subsistence, and I was wondering whether you would care to outline further proposals that would make the system adequate?— Is that asking too much?—A. Well, I think I anticipated that question when I said, that I feel sure that any proposals that I could put forward at the present time would not be accepted gracefully by the people who are in control of the present system, and it would be suggested that it would be interesting to have another plan. That does not, of course, apply quite obviously to you, sir, but the point is this: That we have to face the fact that this power of monetizing of real wealth is the most valuable monoply which exists in the world at the present time. The real problem is not to put forward a plan which will work, because I think I can say without being immodest, that either I, or, probably, quite a large number of people, could put forward such a plan. The problem is to put forward any plan and force its acceptance. I use the word "force" designedly. Now, it is not the slightest use proceeding further if you will not accept, let us say, a small instalment. I prefer going step by step.

By Hon. Mr. Ralston:

Q. Major Douglas, following Mr. Euler's question and with regard to going step by step, I have, like other members of the committee, glanced over the New Zealand proposals and have endeavoured to get into my head their details, and just before you finish I think, perhaps, we should have you tell us definitely just what this first step involves. As I understand it, what you are aiming at here are the two members of the financial institutions in this country, that is, the banks and insurance companies, you are picking them out first, are you not?—A. Yes.

Q. And you are proposing, as I understand it, in the first place to have the banks limit their profits to six per cent of their subscribed capital?—A. Yes. That is not a matter of principle, that is a matter of expediency.

Q. But that is the plan, that is the first step, is it not?—A. Yes.

Q. And it is submitted as a practical plan?—A. Yes. I do not mind if you change six per cent to eight per cent.

Q. I understand that this is submitted by you as a practical plan?—A. As a practical plan.

Q. And you think it is as far as you can go in any plan, having regard to the difficulties that you say will be met, that is to say, the difficulties by way of opposition to the proposal, and so on?—A. Yes.

Q. And you would not attempt at this stage to go any further than that? —A. I should say, to rephrase that, that when I can get agreement to go that distance I would be quite prepared to make additional suggestions, but if you won't go that distance any further suggestions are a waste of time.

Q. We ought to examine these suggestions at any rate, and these suggestions do deal with, to my mind, the system of financial institutions in this or any other country?—A. That is so.

Q. So that if you have a distribution of the so called purchasing power resulting from surplus assets and surplus earnings of these two institutions,

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you have taken care of a good deal of what you might call the general financial system, have you not?—A. Yes, if you understand the implication of the whole of what is there you certainly have.

Q. I want to find out to see if we do understand the implication of just what is in your proposal or scheme. You have been working at this for a long time, have you not?—A. Yes.

Q. How long?—A. Well, it is very difficult to give you an exact answer.

Q. Ten or fifteen years?—A. Oh, yes.

Q. And this plan which you have submitted to us this afternoon is as far as you feel you could recommend to any body of intelligent people to go, having regard to the situation in the world to-day?—A. No. It is as far as I think any body of intelligent voters, or members of parliament, at the present time, are likely to accept as a first step.

Q. And you say this is the limit so far as a practical scheme is concerned just now?—A. Let us leave it at that.

Q. Now then, the first proposal is this, as I understand it, that the dividends payable by the banks shall be limited to six per cent of their subscribed capital?—A. Yes.

Q. And that a fund be established consisting of the difference between the six per cent and the actual profits which are made by the bank, and that fund is called " Suspense Account No. 1," or is that No. 2?—A. I think that is number two. That is the least important.

Q. That is the least important?—A. Yes.

Q. And that fund, as I understand it, so far as the banks are concerned, is to be devoted—correct me if I am wrong—towards paying, or towards reducing, overdrafts of customers with the banks?—A. Suspense Account No. 1 is applied to the overdrafts.

Q. Let us take Suspense Account No. 2, let us see to what that is applicable. That is applicable to the interest on overdrafts, is it not?—A. That is right.

Q. Then the only portion of the community which will benefit by that are those who have carried overdrafts with the bank and who have paid interest on them?—A. That is so under that particular clause.

Q. When I talk about overdrafts I mean to say an amount greater at the debit of my account than at the credit of my account?—A. Yes.

Q. Is the overdraft the difference between the two?—A. Yes.

By Mr. Coote:

Q. You would not include notes in that, would you?—A. Yes.

By Hon. Mr. Ralston:

Q. You mean borrowers from the bank?—A. Yes.

Q. Have you figured out what percentage of the population that is?—A. In Canada, no.

Q. In New Zealand?—A. Yes.

Q. What percentage?—A. Well, would you excuse me from answering that as it applies to New Zealand.

Q. It is not a matter of common knowledge, is it?—A. No.

Q. Would you be good enough to make an estimate from your general experience in working out these problems??—A. Broadly speaking, very nearly every agriculturist in New Zealand is indebted to the banks.

Q. Give us an estimate of the proportion of the population in Canada that you think are borrowers from the banks.—A. When you say " borrowers from the banks " you mean having notes discounted, and so forth?

Q. Yes.—A. I should be purely guessing as to Canada, but I should think that in the Western Prairie provinces something like sixty per cent, or something of that sort, of agriculturists are indebted to the banks.

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Q. Sixty per cent of the agriculturists?—A. I should think so. I am putting it at what I should imagine would likely be a low figure.

Q. Could you give us an approximate estimate for all Canada, I mean just an estimate?—A. I am, of course, entirely at your disposal, but could not you get the information much better from somebody else than from me.

Q. I probably can, but we are trying, right now, to get it into the record to see just exactly just how this plan works out.

The CHAIRMAN: Would you not estimate a figure, Colonel Ralston, and then ask questions on that.

By Hon. Mr. Ralston:

Q. Would ten per cent of the gross population of the Dominion of Canada be borrowers from the banks?—A. The adult population?

Q. Ten per cent of the gross population?—A. Well I do not suppose children borrow from the banks. Assuming families to be four which is a figure that is very common, that would make forty per cent of the adult population. I should say that directly or indirectly probably certainly twenty to twenty-five per cent of the total population of Canada were borrowers from the banks in one form or another.

Q. Directly or indirectly?—A. Yes. I mean, for instance, it is quite obvious that if I am an employer of labour and I borrow the whole of my payroll from a bank, those people that I am paying money to indirectly are borrowers from the banks. I am simply borrowing as an employer of labour.

Q. Well, I want to get your estimate because you put up this New Zealand proposal, and I assume you would suggest that it might be workable in Canada?—A. Yes.

Q. Your estimate is that perhaps twenty to twenty-five per cent of the gross population of Canada are directly or indirectly borrowers, that is to say, either that, or the head of their family, or the head of the organization for which they work, borrows from the bank?—A. Unquestionably.

Q. Is there any objection to telling me what the annual amount would be in New Zealand which would be for distribution under this scheme?—A. No, it is impossible to tell you that, because in regard to Suspense Account No. 1 I do not think anybody knows what the realizable or, if you like, the cost value of the bonds is which are either held directly or indirectly by banks. The first thing you have to do is to get at those figures, and I feel fairly confident in saying that would be surprising.

Q. Let us keep to Suspense Account No. 2 for a minute. Then I suppose, by the same token, you have made no estimate as to the annual amount which would be distributable under Suspense Account No. 2 in New Zealand, that is, the difference between six per cent and the actual earnings of the bank?—A. The two things are undoubtedly interconnected, because if you assume that the assets which come into the control of a bank during a year are part of their profits and are not written down, then the profits go up normally. If you write those things down the profits go down but the undisclosed assets go up, so that the fundamental object of both dealing with the capital account of the bank and the interest payable by the bank, the dividend payable by the bank, is to get it either one way or the other.

Q. Major, I do think we have got to try to stick to one thing at a time, and I was hoping that you might at least be able to give us an estimate.—A. I am telling you that it is utterly impossible to get an estimate without knowing this fact, what is the actual value on some basis of valuation bearing some relation to the market price of the assets which are held either directly or indirectly by banks. That affects the real profits of the banks. Take for instance the figure I gave you this morning in regard to the westernized world, that is, seventy-five per cent of the real assets of the westernized world at the

present time were either directly or indirectly under liens to the banks, that seventy-five per cent of the capital assets is profits to the banks but undisclosed.

Q. I heard you say that but it is not germane to my question. What I am trying to do is to see how much money is disbursable to these borrowers of the banks in New Zealand, and I take it from you that you have not made any estimate of that?—A. I have made some estimates but they have no bearing on this particular form of question that you are asking.

The CHAIRMAN: Gentlemen, shall we adjourn till eight o'clock tonight? It is obvious we can give only one day to this discussion.

The WITNESS: I am sorry, Mr. Chairman, I cannot be here tonight. I am on the air tonight.

The CHAIRMAN: Would it be possible for this committee to meet tomorrow morning at eleven o'clock? Major Douglas tells me he cannot come tonight, he is on the air. Shall we adjourn until tomorrow morning at eleven o'clock.

Mr. MORAND: I do not see how that is possible, Mr. Chairman, in view of other committee meetings.

The CHAIRMAN: It is quite obvious we cannot meet tonight. and we cannot meet tomorrow morning. We will, therefore, adjourn now until eleven o'clock Thursday morning.

The committee adjourned at 6 p.m. to resume on Thursday, 19th April, at 11 a.m.

House of Commons,
April 19, 1934.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Mr. R. B. Hanson in the Chair.

The Chairman: When we adjourned on Tuesday, we had not quite finished with Major Douglas. He is still available for cross examination, for a brief period this morning; but we have other witnesses summoned for this hearing, and I hope the whole session will not be taken up with Major Douglas.

Major C. H. Douglas recalled.

By Hon. Mr. Ralston:

Q. When the committee rose on Tuesday, we were trying to get at some sort of estimate of the probable amount of suspense account No. 2, which was the difference between the earnings of the banks for a year and 6 per cent dividend on paid-up capital. My object in stating this is to recall my questions to your mind?—A. Yes, I remember.

Q. I was asking you whether you had made any estimate as to what the amount of that suspense account would be, so far as New Zealand is concerned?—A. I remember exactly what happened, sir. I was endeavouring to explain to you that that figure could be arrived at only by knowing what is not treated as profit, or earnings, i.e. transferred to capital account and written down. As those figures are not available, it is impossible to answer that question.

Q. I asked you, and I ask you again, did you make any estimate as to what that figure would be for New Zealand?—A. I formed a general opinion, subject to the eliciting of precise figures; but I am not prepared to put those figures forward.

Q. When you say you are not prepared, you mean you have not them in sufficiently definite shape, or you regard it as—A. I mean exactly what I say; I am not prepared to put them forward.

Q. You are content to leave it at that?—A. That is right.

Q. Now, let us take the position in Canada. We are all interested in what you are interested, the increasing of the purchasing power?—A. Right.

Q. And the mechanics which you have suggested for that purpose, at least one of the phases of endeavour is the distribution of what you regard as surplus profits—or profits of the banks above 6 per cent on subscribed capital—is that so?—A. Yes. I should like to amplify that description of it. What I am chiefly concerned with is the distribution of—a furthur monetization of—profits, which, at the moment, remain unmonetized.

Q. I am speaking about the mechanics of the scheme?—A. Those are the mechanics.

Q. The mechanics of the scheme are the definite proposal to take 75 per cent of the excess of profits of the banks above 6 per cent on subscribed capital and distribute that percentage among the borrowers from the banks?—A. Yes. The scheme is written down, I think, quite plainly, and can be referred to.

Q. Major, we have to describe it some way, and I should like, if you would permit me—A. Might I say—

Q. Would you just permit me, for a moment. You read the New Zealand proposals very quickly to the committee—A. You have, presumably, a printed copy thereof?

Q. You read it very speedily to the committee, and in it one finds some reservations, and so on; and I want to get from you just an explanation. I think it is very important to the committee for you to explain the scheme and answer such questions as I am suggesting, making any reservations you think proper. Now, the form, or the general outline, at least, of the method of distribution is really most important. Looking at the Macmillan report, I find that—A. Might I ask, do you refer to the English Macmillan report, or the Canadian?

Q. The Canadian. I find that in the last ten year period there has been available, for dividends—in Canadian banks—about $17,000,000 per year?—A. Quite.

Q. Have you looked to see what is the paid up capital of Canadian banks?—A. No; I should think it is—

Q. Perhaps you will take my word for it, based on the Macmillan report?—A. Certainly.

Q. The average paid up capital, according to the Macmillan report, is $123,605,663. You are proposing to allow only 6 per cent on that paid up capital; is that so?—A. That is the figure stated in the New Zealand scheme.

Q. Do you think that is quite fair, if capital has been supplied at a premium? Do you think a man should not be allowed 6 per cent on the actual money that he has invested?—A. Well, the answer to that, of course, is that the same complaint, if one might use the word, is made, when the public buy shares at a premium and, by the operation of monetary policy, those shares drop very much below the price at which they were bought. The same argument applies both ways.

Q. I wonder if you would just answer my question?—A. I should say fairness does not enter into the question, in either case.

Q. In other words, notwithstanding the fact that somebody pays at the rate of $140 for his $100 share, you say he should receive, or it is not unfair to permit him to receive, only 6 per cent on $100?—A. Well, if you wish to raise that as an objection to the scheme, then my answer is that the actual subscribed capital is so small, in comparison with the transactions that are carried on by the banking institutions, that even if you compensate those who bought at the higher rate, you will not be faced with any formidable problem.

Q. Let us assume we do compensate them to the extent of allowing them 6 per cent. I find also, from the Macmillan report, this, that, in addition to the $123,000,000 odd paid up capital, 42 per cent of the amount of reserves and undivided profits represented premium actually paid in by shareholders; and 42 per cent of the reserves and undivided profits which I think is about $144,000,000, would mean that another $57,000,000 ought to be added to the $123,000,000, in order to find the amount on which we would pay 6 per cent dividends?—A. Why?

Q. Because that is the premium. You were suggesting that they should be compensated, or possibly it would be fair to allow them to be compensated for the money they had paid in as premium?—A. Yes, but you have lumped reserves and undivided profits?

Q. You misunderstand me. I have said that 40 per cent, or 42 per cent, of the reserves and undivided profits of the banks is represented by money actually paid in by shareholders as premium on their subscribed shares?—A. I am sorry, I misunderstood. They paid that much extra for their shares.

Q. So the total amount of capital on which you would be willing to allow—I am suggesting " willing " under the scheme for the purposes of argument—6 per cent would be in the neighbourhood of $180,000,000?—A. That sounds so.

Q. And 6 per cent on that is $10,800,000?—A. Quite.

Q. Leaving $6,200,000 of the $17,000,000, which as I said is the annual total amount available for profits?—A. I presume so, yes.

[Major C. H. Douglas]

Q. Leaving $6,200,000 of the $17,000,000 annual amount available for profits?—A. Right.

Q. Of that $6,200,000 you take 75 per cent?—A. Right.

Q. And 75 per cent of that is about $4,500,000?—A. Right.

Q. And that is your suspense account No. 2 which you say should be distributed annually among the borrowers of the bank?—A. Suspense account No. 2, speaking from memory, is the one which goes to the reduction of—

Q. Interest?—A. That is right.

Q. Do you know approximately how many borrowers there are from the banks?—A. No. You were going to—someone was going to—tell me.

Q. I am informed that there are about 400,000?—A. Yes.

The CHAIRMAN: Direct borrowers.

WITNESS: That is, direct borrowers.

By Hon. Mr. Ralston:

Q. Yes.—A. Of course, there are very many more through intermediate credit institutions.

Q. I beg your pardon?—A. Of course, there are no doubt, very many more through intermediate credit institutions.

Q. Which would mean, probably, about $10 to $12 apiece per year for those borrowers out of this suspense account No. 2?—A. Let us say, on your figures, yes.

Q. Then the amount of increased purchasing power to be given is $10 to $12 apiece to 400,000 borrowers on account of their interest, so far as suspense account No. 2 is concerned?—A. Taking those figures, of course, to be correct. My suggestion in regard to the situation would be, if the matter is, as you apparently are trying to suggest, a matter of small importance, why not try it and see what happens?

Q. I beg your pardon?

The CHAIRMAN: Why not try it and see what happens.

Mr. BAKER: Experiment.

By Hon. Mr. Ralston:

Q. Do you regard it as a matter of large importance to you, the distribution of $10 a piece to 400,000 people?—A. I regard it as a matter of considerable importance to carry out the provisions of the scheme, yes.

Q. In other words, we have the purchasing power of that number of individuals increased by $10 to $12 per annum?—A. Suspense account No. 2.

Q. Now then, in regard to suspense account No. 2 which is produced from the insurance companies profits. That account is distributed in the same fashion, is it not—A. It is.

Q. It is distributed among how many people?—A. Well you have obviously, more information on statistics than I. You tell me.

Q. I do not know. It is distributed—as I understand it, correct me if I am wrong—to everybody over 21 years of age who cares to send in an application for his share of free debentures or stock.—A. Well yes. Ultimately, of course, taking it on an actuarial average, that is to say, some people may apply for one share, and some people may apply for another. They exercise their freedom of choice as to which of the assets of the company that is being created in that manner they prefer to have back, or have a share in; but taking it over infinity, of course, they apply equally for all shares and the result is that you might say in a population of one and a half millions, which is about the population of New Zealand, and taking the average family as four, presumably you would have about a quarter of a million who would be applying for those shares.

[Major C. H. Douglas]

Q. In Canada you would say, I suppose, you would have at least one out of four or two and a half million people applying for shares?—A. I presume there are figures available on how many people there are over 21 in Canada.

Q. It would at least be that, probably a little more?—A. Probably a little more.

Q. So that the insurance fund distribution to each individual is reduced by the increased number of beneficiaries as compared with the banking institution?—A. That is right; that appears to be right.

Q. Now, I should like to ask you with regard to suspense account No. 1, because the Chairman has intimated he does not want to detain long. As I understand it, suspense account No. 1 is made up by taking the book value of bank assets and substracting that from the market value of bank assets?—A. Taking, of course, into consideration what is the actuarial value of the liens held by the bank.

Q. I beg your pardon?—A. Taking also into consideration the actuarial value of the liens held by the banks. If I hold a lien on somebody else's property, that lien has value.

Q. I suppose the value of the lien against my loan could not be more than the amount of my debt to the bank?—A. That is right unless—there are conditions under which it might be. If you had a lien on property of mine which was worth $100,000 and you had loaned me $10,000 on that, and yet you knew that it was impossible that I should ever repay you $10,000; in that case, the value of your lien would be more than $10,000.

Q. That presupposes the property is not worth any more, because it would not be impossible for you to repay if the property were worth $100,000. If the property were worth $100,000, it would not be impossible for me to repay you $10,000?—A. There might be nobody willing to give the $100,000.

Q. Then it would not be worth $100,000?—A. I do not agree with that at all. By a change in the monetary policy it might be—

Q. I remind you that your theory is based on market values; the market value is the thing you are marking up against the banks?—A. Yes; but the market value of any article depends almost entirely on the monetary policy. It depends, obviously, on how much money there is available. How much money is available depends on the monetary policy.

Q. The definition of market value, as I have always understood it, is the price which a buyer who does not have to buy would pay to a seller who does not have to sell?—A. Yes, governed by the fact that the buyer who wants to buy has money with which to buy.

Q. That is a part of market conditions, is it not?—A. Market conditions are the result of monetary policy.

Q. But a part of market conditions?—A. Yes. May I point out that if I, not as a single institution, but as an organization, have the power of determining monetary policy, then quite clearly the market conditions are under my control, as well as everything else.

Q. But then, under those conditions that you have presupposed you are setting up machinery here to take something from the banks, or the insurance companies, in excess of the book values of their assets. Then those market conditions do exist at the present time?—A. Yes; subject to the proper definition of market conditions, certainly.

Q. That is present market conditions, is it not?—A. Subject to the proper definition. For instance, if I had a thing which I could not sell immediately, and I was not forced to sell. I should not say necessarily that a thing that I have at the present time, for which, at the moment, I can get only $10,000, when I am not a forced seller, I should not say that was necessarily the value of the property. I should say if I held that, I am going to hold it, it is worth $25,000.

[Major C. H. Douglas]

Q. In other words, in connection with the valuation of assets, do you mean to say that you do not mean the market value to-day. Do I understand that when you are finding out how much assets there are for distribution, you do not mean the market value to-day but that you mean the market value some time in the future?—A. Not at all. Take the method which we applied to valuation, of say, coal royalty. You might have coal deposits which are not being worked, and which could not be sold at all at the present time. It is possible to get the valuation of that thing, just depending on the expectations that at some future time—

Q. You sell it on the expectation do you not?—A. If you want a fact I will give you lots of facts about it. It not only has a value but you are very often taxed on it.

Q. Expectation is one of the possibilities, one of the facts which enter into the present market value?—A. Yes, but not the present selling value. The two things are quite different.

Q. Now then, just let us take this matter of Suspense Account No. 1 for a minute, whatever the market value may be, you propose to deduct the book value from the market value of assets and distribute 50 per cent, or 75 per cent, of that amongst the borrowers. Have you made any estimate of what that would amount to, either in New Zealand or in Canada?—A. I think I said before what this amount was.

Q. Well, just let us assume that you have done that, that at the end of this year you have taken the securities,—I think the banks say that they are holding securities to the amount of $833,000,000 at the present time.—A. That is what they say.

Q. And assuming that, according to your figures, they are worth on the market 10 per cent more than that; let us say they are worth $900,000,000; that leaves $67,000,000 for distribution.—A. For the purpose of argument, I am delighted to accept any figure you like, but I should not like to accept that figure as being anything of the order of the figures—

The CHAIRMAN: Well, assume Colonel Ralston's hypothesis.

By Hon. Mr. Ralston:

Q. Let us assume that we have $67,000,000 cushion or margin in the securities held in the bank.—A. All right.

Q. Now then, what you propose to do is to take 75 per cent, which would be about $46,000,000 or $47,000,000 and you propose to divide that among those 400,000 borrowers, is that so?—A. In the form of shares that is.

Q. No, no, in the reduction of overdrafts.—A. Oh yes, that is right.

Q. That is, you credit each borrower with roughly $120 on the basis of those figures.—A. On the basis of those figures, yes.

Q. And having done that, Major, you are exhausted are you not? The increased value, or the increased excess value, you do not get that every year, do you?—A. Not unless an increased amount of capital assets come into the hands of the banks. You have at least an increment of very large dimensions in the last forty or fifty decades.

Q. Now then, let us suppose that we have distributed our $46,000,000 to our 400,000 borrowers on the basis of crediting $120, and the next year the stock market goes down 10 per cent then what do you do? In order to pay out that $67,000,000, or $46,000,000 we have had to write up our assets to the real figure $900,000,000?—A. Yes.

Q. We have had to have something to charge it up to.—A. To within 25 per cent.

Q. Therefore, when next year we come to figure the difference between our book value and market value we have a new book value compared to the year before.—A. Yes.

[Major C. H. Douglas]

Q. Now then, we find this new book value is 15 per cent above the book value of the year before.—A. The whole of that argument is based on the assumption that the real wealth of the world is fluctuating up and down according to the state of affairs. My positive contention is that it is not; it is rising all the time.

Q. Major, if you will please permit me, we are dealing with a specific plan of distribution, of a certain number of shares of stock owned by certain institutions, and I am asking you, assuming that the fluctuations are down in these shares, what would you do at the end of the next year?—A. Then I should expect you to put into operation methods which would prevent it ever going down.

Q. That is not the scheme, is it?—A. I specifically informed you that this was an instalment of the scheme.

Q. I know, but that is not in the scheme?—A. No.

Q. I thought this scheme was the first step in a practical scheme?—A. It is.

Q. And I am asking you, in that connection, what would you do when you have lost the value of the assets or made a substantial loss in the value of the assets?—A. The only possible way of giving you any answer is for you to give me the reason as to why the value of these assets should go down.

Q. Major, I am not mentioning any theoretical possibility—your shceme is to take things as they are and I am trying to get some information for myself with regard to the merits of your scheme as a workable proposition to be put in the form of legislation in the Dominion of Canada under existing conditions.—A. Oh, the very first thing to do then is to get the figures required to find out what is involved in the scheme.

Q. I am trying to get them from you. I assume when you put forward this scheme it was for the purpose of suggesting to us a workable proposition that could be put in the form of legislation, and that you would be able to give us some idea how, through your scheme, so much purchasing power would be distributed.—A. I can tell you this, that there is not the very slightest doubt about it that the amount of purchasing power available bears no relation whatever to the true value of the bonds which would form the basis of the purchasing power. If that were so, it would be impossible for the purchasing power not to be available against goods and services which are available.

Q. Yes, but we are dealing with a specific institution; you do not mean that in regard to the assets held by the bank.—A. If you take the estimate, that a very large proportion of the available assets of the country are held either directly or indirectly by the banks, which I think is very largely admitted everywhere, then that must be so, that is, if you assume that.

Mr. Hackett: The Canada Year Book shows, Mr. Chairman, that that is an inaccurate assumption.

The Witness: I have not the available figures.

Mr. Hackett: There are figures available by the Bureau of Statistics which show that your assumption is entirely inaccurate.

Mr. Irvine: What are those figures?

Mr. Hackett: They are right here.

The Witness: Well, I have no doubt there are eminent bankers here, and perhaps they would tell us whether their assets are valued at what they consider their full value.

By Hon. Mr. Ralston:

Q. I have just been informed by one of the general managers with regard to the total assets held by his bank. As I understand it, securities, loans—everything that they include in the name of assets—amount to be between five and six billion dollars, that includes both the banks and insurance companies, the banks have

[Major C. H. Douglas]

roughly three and a half billions and the the insurance companies roughly one and a half billions, and the Bureau of Statistics shows the assets of Canada to be something like thirty billions of dollars. Now, are you prepared to contradict that?—A. Well, I should not think of contradicting a figure like that without analysing it to find out what is meant by the figures.

Q. Speaking of purchasing power, do you know what the total debits are in Canada, let us say for one year, showing the amount of purchasing power which is exercised and turned over?—A. I should be interested to know.

Q. About thirty billions.—A. What are those, bank clearings?

Q. The total cheques charged to individual accounts.—A. The total cheques charged to individual accounts?

Q. Yes.—A. But, of course, those circulate several times in one year. Those are the figures of bank clearings, are they not?

Q. No, no, total bank debits.—A. Yes.

Q. Now, then let us take the difference between—we have our $67,000,000 if you like, that is to say, the difference between $833,000,000 at $900,000,000 which you thought was not enough, but taking even $100,000,000 more if you like and distributing that, we have not increased our percentage of purchasing power very heavily have we.—A. You have not.

Hon. Mr. RALSTON: That is all, thank you.

By Mr. Spencer:

Q. I would like to ask Major Douglas a few questions. In your statement made to the committee the other day, you referred to one of the big problems in our present economic system, as the unpurchasable production; that is what you said. This is, I believe you said, brought about very largely through a lack of purchasing power?—A. Correct.

Q. And this has, in turn, brought about the unemployment problem?—A. Yes.

Q. And the unemployment problem, in turn, has brought about a great deal of poverty I take it?—A. Yes.

Q. And I take it you will agree with me that poverty is largely the mother of crime?—A. Just on that point, there has been a very interesting booklet just issued in England, by an entirely neutral concern, indicating that something like 92 per cent of the crime in Great Britain is due to financial reasons.

Q. Our object, therefore, in your opinion, should be to turn real demand into effective demand?—A. Correct.

Q. If we had ample purchasing power amongst the people somewhat evenly distributed, I take it we would get away from the cut throat competition in selling goods?—A. Undoubtedly.

Q. You stated there was a developing disappearance of industrial profits?—A. Correct.

Q. Would you kindly explain that a little further.—A. Well, industrial profits are reckoned in the amount of money, with certain reservations, which a commercial undertaking has at the credit of itself in various forms at the end of an accounting period, as compared with the same figures at the beginning of that accounting period. That is to say, the profit in a commercial concern involves a continuous rise in the amount of its credits either distributed or undistributed; and since the amount of the credits of the industrial organizations—certainly in Great Britain and probably in Canada during the past few years, at any rate—have not risen in the manner in which I have just described, they cannot be said to have made profits.

Q. Then under the present system, business and industrial depression is quite logical except through an extension of debt brought about by extended credits?—A. Entirely.

[Major C. H. Douglas]

Q. Would I be right in saying that we should have at all times sufficient money to purchase the goods that are made in abundance, plus buying our imports minus our exports?—A. Correct.

Q. The present condition I take it, therefore, will inevitably lead to war?—A. That is my opinion.

Q. So that if we do not have war what is the alternative?

Mr. JACOBS: Peace.

The WITNESS: I heard an interjection there " peace." We might have that which appears to be the alternative of war and which is sometimes labelled " peace."

By Mr. Spencer:

Q. You claim insufficiency of money paid out in purchasing goods to enable the goods to be bought in the matter of price?—A. Right.

Q. Then a temporary solution, I take it, is to sell goods on time or, to a certain extent, borrow from the banks to help create purchasing power?—A. Yes, but there is another probably more vital method, at any rate in the past, and that is the production of large quantities of what are called capital goods the purchasing power in respect of which is applied to the purchase of consumable goods, so that in any period of what is correctly called real capital expansion, when large public works are in progress, large railways are being built, and large quantities of machinery are being exported to other countries at that time, it is possible to have sufficient purchasing power.

Q. In any case it is carried on by or to the creation of debt?—A. Undoubtedly.

The CHAIRMAN: What about the creation of new wealth?

By Mr. Spencer:

Q. We often hear the statement made that a farmer will produce, say, sixteen or eighteen bushels of wheat to the acre, he sells it, and the statement is made that that is new wealth. Would you explain whether that is new wealth without creating debt?—A. Certainly. The growing of sixteen or eighteen bushels of wheat to the acre, or any quantity of wheat, is unquestionably the creation of new wealth but it is not the creation of any new purchasing power in itself. To make the point perfectly clear, it is obviously puzzling to a great many people because they are constantly confusing real goods with price figures attached to them or price figures which might be attached to them with the purchasing power which is necessary. The two things are entirely separate and are on opposite sides of the ledger, but in order to make it quite clear you can say quite well, that the man who grows eighteen bushels of wheat, if he sells them, if his initial letter is A and he sells them to B, all he does is to get the purchsing power of eighteen bushels of wheat from B in return for wheat which he grows, and that so far as the process is described by what happened there, there are undoubtedly other factors that do come in by what is called the financing of the wheat crop, harvesting and that sort of thing; but so far as that process is concerned there is no new purchasing power produced whatever by the growing of eighteen bushels of wheat.

Q. Do I understand, that in your outline of the other day you would monetize unearned increment or real assets to make up the difference between what we might term cost and price?—A. Yes.

Q. You stated the other day, I think, that money is written into existence by the banking system when making loans or buying securities?—A. That is beyond all reasonable discussion.

Q. You approve also of the statement then that money disappears when loans are cancelled or securities sold by the banking system?—A. That is correct, both of those statements are correct.

[Major C. H. Douglas]

Q. Do you claim that the government could write money into existence in exactly the same way as the banking system does if they had the institutions to do it?—A. Certainly. It is a pure book-keeping system. Anybody can keep books.

Q. With regard to the national credit account, how could that be supplied with the necessary funds? Could you tell us that in a few words—A. Yes. It would be possible to form a correct valuation of the price figures which could be legitimately attached both to the existing production of a country and the production of a country is its dynamic aspect. The wealth which we have to deal with to a great extent is a flow, not a static state of affairs. It would be possible to attach price values to that, and then the authentic practical and well recognized method of distributing that wealth is to distribute that purchasing power to the people that you want to get hold of the wealth.

Q. We have continually had statements made in this committee, Major Douglas, that you want to turn the printing press on and turn out money. I have just heard that statement made again. I take it that you are entirely opposed to that system of making extra money?—A. Entirely, as it is a very clumsy, crude and inflexible method of making money.

Q. In fact, even with the small amount of money that we have in circulation at the present time compared with what we might have, the banks write far more money into existence than they create through the printing press.—A. Well, the exact figures I think are pretty well known and they can be estimated from the fact, that in Great Britain about 99·3 per cent of the monetary transactions which took place in twelve months are carried through without the exchange of any legal tender whatever.

Q. One of your main objects, I take it in the suggestions you are putting forward, is to enable the people to enjoy the vast amount of goods they can produce and are wanted.—A. For the purposes of this enquiry, I should like to say there is no philanthropic desire on my part whatever in that connection. I am merely looking at the problem from the knowledge that we have the power to create and are, in fact, creating large quantities of wealth which is not distributed, and that we have the potential power to create still more wealth which is not distributed, and it seems to me to be an unintelligent way to carry on the business of the country. You have those potentialities, why not use them.

Q. Yes, I take it, therefore, that you would agree that if such a scheme could be put into operation it would have the effect of doing away with a lot of poverty and crime, and many of our social evils?—A. Yes, it would undoubtedly achieve that result.

Q. With reference to bank loans creating deposits, I take it that a loan creates an asset as well as a liability?—A. From the book-keeping point of view.

Q. From the book-keeping point of view, yes, because when a bank does create, as we say, a deposit, that is to say, credits a deposit, that deposit is a liability of the bank?—A. All deposits are liabilities, and all loans are assets from the point of view of the bank.

Q. But from the point of view of a liability it can be taken care of—and is taken care of—by the collateral that the bank has taken from the customer? —A. That is the restricted way of looking at the case; but the real collateral, of course, is the general credit of the country.

Q. Yes, but in case the average customer could not pay a certain debt in all probability his collateral would be liquidated and the account wiped off?—A. Yes, of course. You realize that in liquidating that account the orthodox method of doing it would be to sell the assets to reimburse the bank the amount of the funds which had been loaned, assuming the assets had been sold for a

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certain amount, recrediting the original loan with the amount which was received for the assets, and the loan and the repayment would disappear together, with the result that the asset would stand exactly where it did before.

Q. Then the cancellation of loans has the effect of reducing the amount of money in circulation?—A. Yes.

Q. And although it cancels an asset on the one hand it also cancels a liability to the bank on the other?—A. Quite so.

The CHAIRMAN: Mr. Spencer, those questions have been asked over and over again.

Mr. SPENCER: Well, I am almost through with this, Mr. Chairman.

By Mr. Spencer:

Q. With reference to a question of Mr. Irvine's the other day, as to whether free trade would help the situation at all, I think you said you thought it would make no difference. Would you mind explaining that a little further?—A. Well, the advantages conferred by a tariff, of course, are perfectly well known. They have a tendency to confine the home market to the home producer. The result of that is that there is more actual wealth created in the country rather than the same amount of wealth being partly created in the country and partly imported. I hope I am not trespassing, Mr. Chairman, but the general tendency of a tariff means unquestionably to build up capital assets. I think that is beyond argument.

Q. You were very critical in answering one of the members of the committee with respect to the use of gold. Would you say gold is not necessary as an internal basis of money, and also for settling international balances of trade?—A. It is most certainly not at all necessary for internal currency questions. There is no relation whatever between the amount of gold and the rate of production. The idea of tacking a financial system on to a metallic basis is irrational in itself. So far as international trade is concerned, the only question of the use of gold that arises is, whether owing to a completely false psychological state and possibly the intervention of certain interested motives, whether gold is more employable in the settlement of international balances than something else, but no physical result of any kind whatever is achieved by shifting a lot of gold out of one set of vaults in London to another set of vaults in Paris, or to a third set of vaults in Washington; no physical result can possibly be effected by just shifting the gold around from one hole to another.

Q. In some questions the other day, it was suggested that most money came out of the banking system to the public and the reply was "oh well, that is not a fact, that one might sell goods abroad and get gold for them and bring the gold into the country," and, therefore, the gold would not come from the banks in that instance. What would you say to that?—A. Well, all you are doing then is simply bartering goods for so much gold, that is the physical meaning of that transaction, no more or no less.

Q. I am going to ask you a question now with regard to debts and if you do not wish to answer it now you do not need to. The question is if, in your opinion, debts can be paid in the aggregate under present conditions?—A. Not without a complete reorganization of the existing financial system, certainly not because every act of payment of the debt involves the creation of a still further burden of debt.

Q. Is it necessary, in your opinion, that a nation should have to go abroad to borrow money to develop its own country?—A. Not a bit.

Q. Would you say all development under our present system must result in an increase in debt?—A. Yes; and I would go further than that and say under

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existing conditions that the rate of increase of debt per unit of development is, you might say, increasing.

Q. Would you say there is no other way for a country to be paid for exported goods, except by importation of goods, or gold imported as goods?—A. Well, I should like to be rather definite about that. The idea that we live in a barter economy, that trade is merely the interchange of goods for goods, and money is nothing but an intermediary in the transaction, is radically and fundamentally wrong. What we do at the present time is to exchange goods for money, and then as a separate complete transaction we exchange that money for goods. But there are two systems which are involved in the complete transaction, not one. You are not bartering the goods against the other goods. All you have bartered is the goods against a certain amount of money, and the same amount of money against quite a different amount of goods, which the original goods might not necessarily have been exchanged for. So that you have to realize that no classical statement, which if it was ever true, is true to-day; to say that in the last event trade is the exchange of goods against goods, is radically untrue at the present time.

Q. Then if finance has to be found for the goods, in the first place, it is in the hands of the financial interests either to help to increase trade or decrease it?—A. Oh, certainly.

By Mr. Bowman:

Q. I want to ask you one or two questions, Major Douglas, with regard to the New Zealand proposals. When did you submit those proposals to New Zealand?—A. I think about the 25th of February.

Q. Of this year?—A. Of this year.

Q. They have not been adopted as yet?—A. Not yet, no.

Q. Now, at the time you did submit those proposals to New Zealand, what was the amount of the capital of the banks of New Zealand?—A. I can give you that figure, but I have not it by me at the moment. It is available in the New Zealand statistics, which I have.

Q. Have you any idea of the amount of the capitalization?—A. No, because most of the banks operating in New Zealand, a very considerable number of them, are Australian-English banks, quite a number of them are Australian banks. It is a figure that wants adjusting in several ways.

Q. You did some adjusting when you are making those proposals, did you not?—A. Yes.

Q. What was the amount of capitalization which you had figured out in your own mind to be the capitalization of the New Zealand banks when this proposition was submitted?—A. Do you mean the subscribed money?

Q. Capitalization.—A. You can take the subscribed money and reserves, and total it. If you want that figure, I will send it to you, but I cannot give it to you offhand.

Q. You have no idea?—A. I should prefer not to quote figures from memory.

Q. What was the amount of deposits in the banks at the time you made this proposition?—A. I have not any figures of that sort before me.

Q. You did have them at the time?—A. Yes.

Q. What were the amounts of securities the banks had?—A. That question I have answered several times.

Q. I do not remember the answer.—A. It is impossible to say, because most of them are very much written down.

Q. At the time you made that proposition it was impossible to say what the total securities were?—A. Yes.

Q. So that, at the present time, you can give us no figures with respect to the New Zealand proposals that we can compare with similar figures in respect to the Canadian banking system?—A. The general meaning of all such figures is

much better arrived at—because it is part of my fundamental contention, at the present time, that financial figures do not represent facts, the general meaning of those figures is much better arrived at—by a survey, which I did make, to some extent, in New Zealand, as to the amount of the population that was either directly or indirectly under a form of indebtedness to the banks. Since, presumably, the population owns the country, one might say, a very large proportion of the country is owned by the banks either directly or indirectly.

Q. I was just trying to find out how much of New Zealand was owned by the banks?—A. Yes.

Q. You cannot give us that information?—A. I cannot, offhand.

Q. In making this proposal in New Zealand, did you designate a specific rate of interest that the shareholders of the banks were to be paid, 6 per cent?—A. Well, 6 per cent is the rate of interest which the New Zealand reserve bank is proposing to pay—and which the Bank of England does pay and always has paid—and I believe, if I am not mistaken, it is the rate of interest that your own suggested Bank of Canada is to pay. That seems to be a sort of accepted figure for bank charges.

Q. So, when you submitted that rate of interest, 6 per cent, you had in mind that that was the generally accepted rate?—A. Yes.

Q. And a reasonable rate under existing conditions?—A. Yes, I think so.

Q. So that when you set the 6 per cent rate, you did not have in mind the amount of capital and so forth upon which the rate should be charged?—A. No. It is not necessary to have it.

Q. In fixing the rate of 6 per cent, did you have in mind the rate which the bank would in turn charge to its borrowers for moneys loaned by the bank to individuals and corporations throughout New Zealand?—A. That would be covered by the restitution of excess profits, about 6 per cent.

Q. I am asking you what you had in mind when you made this proposition to New Zealand. What did you have in mind that the banks of New Zealand should, as a reasonable charge, make to the customers for the loaning of money?—A. I cannot, myself, attach offhand any meaning to the word "reasonable" used in that connection.

Q. Did you have in mind that the banks of New Zealand would make any charge at all to their customers for moneys which they were loaning?—A. Yes, undoubtedly.

Q. What rate did you have in mind they should charge?—A. I did not insist, from my point of view, on the fixing of a rate, because the rate would fix itself.

Q. In what way would it fix itself?—A. Because the excess profits over 6 per cent, which would be the result of charging too high rates, would merely go back to the people who would pay the rates.

Q. What did you have in mind as to the amount of those excess profits over a reasonable period of years?—A. Is not that covered by my first cross-examination this morning?

Q. Perhaps you would be good enough to give me what you had in mind?—A. I cannot give you that figure because the question of profits is entirely wrapped up with the figures on which the assets of the bank are carried.

Q. And when you fixed the rate of 6 per cent that the bank would pay to its shareholders, you did not have in mind at all any rate that the banks in turn would charge to their customers for the use of money loaned?—A. I have just answered that.

Q. You did not. I think I take that to be your answer?—A. Yes, I think I said that would be—the rate they charge—if it was in excess of 6 per cent, would, in fact, be practically returned by the operation of one of those suspense accounts.

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Q. When you were submitting this proposition to Canada, did you have in mind that the banks of Canada should pay 6 per cent?—A. Yes; I think that is a reasonable figure.

Q. Did you have in mind what the bankers of Canada should charge to their customers for money loaned?—A. The same answer applies.

Q. No particular rate?—A. No, and it makes no difference, if you have that scheme in operation.

Q. You did not make any calculation whatever?—A. No. Might I suggest that I am passing through Ottawa for a period of two or three days with a view to giving you evidence on the general question of the financial system which is in operation all over the world. I cannot reasonably be expected to have all the statistics of the Canadian banking system at my finger ends in that time.

Q. I quite realize that, Major; but I think, in view of the fact that within the last few months you did submit certain definite proposals to New Zealand, you would have in mind something with which we could compare the situation in Canada?—A. If you apprehend the nature of the proposals which I am making, I feel quite confident you are able, I think, with complete competence, to form a judgment on this without the necessity of definite statistics, because they are proposals which involve a definite principle, which is not affected by the inserting of a definite set of figures into those principles.

Q. Surely, the rate of interest that the bank pays its shareholders has something to do with the amount which they would charge to the customers for moneys loaned?—A. I have answered that. We have agreed that 6 per cent is a reasonable dividend on the bank's shares, and by the provisions of this scheme, if the banks charge more than 6 per cent, on the average, any considerable extent on the average of their loans, then that would go back to the people who borrow the money. That is provided for in the scheme; so that the charges made by the banks are really regulated in the scheme by the rate of interest paid to the shareholders.

Q. Now, the day before yesterday you made a statement that you could propound a scheme which would practically abolish the payment of taxes in the Dominion?—A. Certainly, no doubt about that.

Mr. MacMillan (*Saskatoon*): And make the National Railways pay too.

By Mr. Bowman:

Q. You could wipe out the debt of the Canadian National Railways?—A. In time, yes.

Q. You have not submitted us any details on any such proposed scheme?—A. Yes.

Q. Would you care to, in a very broad way, indicate what that scheme or plan is?—A. No.

Q. You would not? A. No.

By Hon. Mr. Euler:

Q. Mr. Chairman, on Tuesday I suggested to Major Douglas that the New Zealand proposals seemed to me to be rather inadequate to supply a substantial amount of purchasing power, which we all admit is so desirable. And the Major then admitted they were inadequate, stating also the New Zealand plan was only an instalment. With the application of further instalments, would he be prepared to suggest that the plan would be adequate to bring a real substantial purchasing power to the people of Canada. I would suggest this to him, in order that the members of parliament of Canada could form some sort of intelligent opinion as to the plan itself, it should be outlined a little more completely; that instead of giving us only an instalment, we should be told whether other instal-

ments could be applied at once. If that were done, it would enable us to form an intelligent opinion, especially if he gave a further extension of his plans. I said then, and Major Douglas admitted, as I said before, that the New Zealand plan was not adequate to bring about a "new deal" in purchasing power. I think that is correct, Major Douglas?—A. On the figures which you are quoting, it would not make a very large difference, but I am not prepared to take your figures.

Q. I am going to refer to the figures submitted by Col. Ralston this morning?—A. Yes, they were Col. Ralston's figures.

Q. They were interesting to me because if a measure of power be given, I think we should know the amount that is going to increase the purchasing power, or whether it is going—if I may use the term—to increase the purchasing power to an almost negligible quantity?—A. Well, I should not in fact admit that; but I would like to point out that the opponents, amongst whom I am not classing you, cannot have it both ways. They cannot take the attitude that they cannot put into operation a large scheme of monetary reform, because the risks are too great and then turn around and say, we cannot put into operation a scheme of monetary reform because it won't go far enough. If you will decide whether you are going to take a large risk, or a small risk, then perhaps I should be able to deal with the objections you are raising.

Q. At least the Major is saying there is a certain risk involved?—A. You say so.

Q. No; I am repeating your words.—A. No. I am putting the case as it is put by the opponents, as an argument for taking no action whatever.

Q. The two things I want to bring out are, first to suggest it would be fair, I think in order to form a judgment as to the merits of the plan, to give us, at least, an outline of the complete plan rather than just an instalment. It seems to me it would hardly be fair to ask a country to put into operation only an instalment without knowing, to some extent, what the further instalment would be—A. I think I have already said, of course, that a proper investigation, together with the proper consultation with properly informed persons as to the general situation, would be a reasonable basis for making a proposition of that sort. The idea that it is possible to sit down in a room several thousand miles away, and, out of one's inner consciousness, produce a perfect plan which can be clapped straight down on any portion of the world, strikes me as being extremely impractical.

Q. I leave that with you. That, of course, is according to your own judgment. I want to refer to some of the figures that Col. Ralston brought out. He said, in regard to suspense account No. 1, that there would be a distribution of the profits of the banks of the amount of the excess over 6 per cent on the capital. He figured that out to something like \$9 or \$10 per capita, or \$10 or \$12 per person per year of the 400,000 borrowers of the bank. I am going to deal now with the discrimination that would be evidenced so far as the rest of the population of Canada is concerned. Then he went to suspense account 2. I take it, after you distributed the excess given by subtracting the book values from the market values, that the distribution would not be continued. Once that was accomplished in the first year, it would be wiped out?—A. I do not think so. That is what he said. The shortest way of disposing of this, I think, would be to put the plan to the population of Canada and see whether they would like to have \$10 or \$12, which they get in suspense account No. 1, see if they would like it.

Q. You said a while ago in reply to Col. Ralston, and I wanted to ask you a question in regard to it, that you were not able to give the probable amount of distribution to each person by the distribution from the insurance companies; but we will suppose that it might be perhaps another \$12 or \$13 or \$15 or \$25

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per person of the 400,000, or perhaps that number would be increased because of the number of shareholders of insurance companies. The question I wanted to ask is this: I do not want to put words in your mouth—you stated that although the amount seemed small, and is, I think, quite inadequate to be of material assistance by way of giving increased purchasing power, try it and see what will happen. Now, I think there must be something in your mind as to what these things are that will happen, which, I presume, would very materially enhance the value of this small distribution. Can you tell us what, in your opinion, will happen that will make it more valuable?—A. I will tell you one of many things. I will ask you to excuse me from telling you more than one, and that is that you would have a tremendous stimulation of capital expenditure, with the result that you would be getting the results which are aimed at south of the line, by putting large quantities of public works into operation, but instead of piling up the debt account of the population, it would produce a distribution of securities amongst the population, which would be the vehicles for the distribution of purchasing power; so that the debt costs would be not against the population but would be held by the population, which is an entirely different thing.

Q. Would I be right in assuming that in your opinion this comparatively small distribution that would come under the application of the New Zealand plan, would be very greatly increased indirectly?—A. Yes.

Q. Perhaps the indirect results would, in your opinion, be much greater than the actual results?—A. That is a fair statement.

The CHAIRMAN: Mr. Shaver, who is not a member of the committee, has asked permission to ask two or three questions in connection with the rayon industry.

By Mr. Shaver (by leave of the Committee):

Q. I thank you Mr. Chairman, and members of the committee, for the courtesy shown in allowing me to ask a few questions. On Tuesday Major Douglas,—A. Might I suggest I am giving evidence only to the committee, not to the general public?

The CHAIRMAN: Mr. Shaver (*Stormont*) is a member of the House of Commons.

The WITNESS: I am sorry.

By Mr. Shaver:

Q. On page 502 of the evidence you gave on Tuesday, you made this statement in dealing with the competition of Japan in the markets of the world:—

> Perhaps I might give you one special instance in which Japan is pushing out the rest of the world in regard to rayon, artificial silk. I happen to be in possession of confidential figures in regard to the direct labour charges on rayon, but I am not going to give you those exact figures; you can take it that the figures I am giving you are several times as large as the figures—I will not say how many times—but they are much larger; the direct labour charges in regard to rayon are less than one per cent of the normal selling price of rayon.

> *By the Chairman:*
>
> Q. That is to say, in Japan?—A. No, anywhere practically.

I presume you include the whole world by that answer?—A. Of course; obviously there are more efficient plants—

Q. Then Mr. Hackett asked this question:

> There is more labour than direct labour.

And your answer was:

> Direct labour is all that matters in this matter; the actual labour employed by the rayon industry is less than one per cent of the value of it—less than one per cent of the selling price of rayon.

Immediately I read that evidence I did a little computation myself. We have in Cornwall a large rayon plant, Courtaulds, which is a branch of Courtaulds, England. They have factories in many countries in the world?—A. I know.

Q. They pay weekly wages there, amounting to $30,000. If they are based on one per cent of their production, it would mean they would have to have a production of $3,000,000 per week, or $156,000,000 per year in that one plant, and when I tell you the figures given by the Board of Trade of the town of Cornwall, just about a month ago, showed—for three different cotton mills, a large paper mill, clothing factory, and two or three smaller industries combined—a production of $15,000,000, I think you will find that the one per cent does not work out?—A. All I can say, sir, is that I am not an expert on rayon. I will give you in confidence, the greatest confidence, not to be repeated anywhere, the source from which those figures were obtained, the source is absolutely incontrovertible. I am not arguing—

Mr. JACOBS: What is the use of giving a member of parliament anything in confidence. He cannot use it.

The WITNESS: This gentleman is apparently putting himself up as a representative of the rayon industry. I am not a representative of the rayon industry.

Mr. HACKETT: No, he is a Member of Parliament.

By Mr. Shaver:

Q. I do not like that impression to go to the country, because owing to your position in the world of economics, it would bear considerable weight. Apart from that, I have information directly by telephone, which I obtained this morning from the manager of the rayon plant at Cornwall, that in Courtaulds plants throughout the world, in England, France, United States and Canada, that their wages are 30 per cent of the cost and 25 per cent of the selling price of their product. That is the general condition throughout all their plants.—A. I am entirely unmoved by your figures. My figures were given me by the largest federation of employers, probably, in the world.

Q. Thank you, Mr. Chairman.—A. And I am not going to withdraw the figures without their being withdrawn by that institution.

The CHAIRMAN: You agree to disagree? Mr. White has a few questions to ask.

By Mr. White (Mount Royal):

Q. I should like a little information, Major Douglas, upon a point that has been repeatedly referred to. You said that all loans create deposits; is that so? —A. No, I did not state that; all the authorities in the world of any consequence state that. I merely quote them.

Q. That is the general impression?—A. Yes.

Q. Is that true?—A. May I refer you to the authority.

Q. Does it follow that all loans are credited immediately to the borrower's account in the banks? May not some of the money be drawn by the borrower, in cash?—A. Well—

Q. There must be surely a percentage of that kind?—A. Would you like me to give you my opinion of that particular aspect of it before you go on? If it is drawn by the borrower in cash, he, presumably, does not put it in a drawer; he either pays a bill with it or he puts—

Q. Puts it into circulation?—A. Puts it into circulation. Let us suppose that he pays his grocer's bill with it. His grocer banks with some other bank. At the end of the day, he merely takes that money that the original borrower has used for the purpose of paying the grocer's bill and pays it to the credit of his grocer's account, and the grocer's deposit account is increased by the amount that has been paid in.

Q. Quite so, and if the loan appears immediately in the shape of a deposit, the same results would follow. That deposit would be a cheque deposit, and drawn on until it is exhausted, because no one could imagine that a merchant would pay 6 per cent for a loan and leave the proceeds on deposit and derive only three per cent; that would be ridiculous. Did I understand you to say that the deposits in the Canadian banks represent borrowings from the banks?—A. Well sir, I can give you only a short answer on that to the effect that there are available eight, at least, unquestionable authorities on this subject, who state categorically and beyond any question of doubt that the increase and decrease of the money in the country is due solely to the creation of loans, or the purchase of securities, by banks. If you are not willing to accept these authorities, I feel sure you won't accept as authoritative anything I say to you.

Q. Now, would it surprise you to learn that the deposits in the Canadian banks at this moment are one billion dollars in excess of the mercantile loans of the banks?—A. That is a figure which can convey no fundamental meaning.

Q. Except this meaning, that these deposits do not arise from loans.—A. Well, they might not arise from loans in this country but they might arise from loans somewhere else.

Q. Well, the savings banks deposits are the savings of the Canadian people.—A. Out of what did they save them?

Q. They saved them out of income in excess of expenditures.—A. Quite. Where did the income come from, or the money which formed that income, how was it originally created?

Q. Oh, Lord, I cannot tell you, but I do know, in a practical way, that the people of Canada have a billion dollars more on deposit in our chartered banks than the mercantile loans of these banks.—A. All right sir, I am delighted to hear it.

The CHAIRMAN: Are there any further questions?

By Mr. Coote:

Q. To clear up that point, I want to ask Major Douglas if he is aware that the banks, according to a recent statement, carry between eight hundred and nine hundred million of dollars of securities as well as mercantile loans and might that amount, perhaps, be a source of part of the deposits?—A. Quite easily.

Q. Major Douglas, for three years, I think it would be fair to say that the public works construction program of Canada has been curtailed, and we have a lot of idle men and idle equipment in Canada, as well as goods; could we not by proper use of the national credit put those idle men to work with this equipment?—A. Certainly.

Q. Without increasing the interest-bearing debt of the Dominion, would you say that?—A. Certainly.

By the Chairman:

Q. How? Just tell me how, please?—A. I feel my cross-examiner can tell you.

Mr. COOTE: I would be glad, but I think the committee would prefer to have you answer that.

The CHAIRMAN: I certainly would.

Mr. COOTE: If you want to ask that question, Mr. Chairman, I am quite willing.

The CHAIRMAN: I would like him to tell us how.

Mr. COOTE: I did not intend to ask the question, but I will ask the Major if he cares to take a few minutes to tell us.

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The WITNESS: Oh, certainly. Obviously it would require a little consideration, but the principle, of course, in which it would be done would be exactly the principle on which money is provided for the public services, let us say, of Great Britain, by the ways and means account. The I.O.U's under the ways and means account are treated as cash. These I.O.U's are treated as cash by the Bank of England and then collected again in taxes, but it is not at all necessary to collect this again in taxes. All that is required to do is to amortize that debt by the amount that the real wealth deteriorates from year to year, that is all.

Mr. BOWMAN: As clear as mud.

The WITNESS: That is why I might say it is so hopeless to try to explain these matters to those who are not familiar with them.

By Mr. Coote:

Q. In regard to the earnings of the banks, the question that was discussed with you at some length this morning, the total earnings of the banks are not disclosed or stated in the bank's annual statement, and I think it has been admitted by bankers that a certain amount is held for contingent reserves or inner reserves?—A. Yes.

Q. Then in regard to the question of the change in market values of securities, you are aware that there was a very great change in the value of securities on the market in all countries from 1929 to 1932?—A. Yes.

Q. A very drastic change?—A. Yes.

Q. And again there has been a change from 1932 to 1934 in the value of securities. Would you say that the chief cause of this change was monetary policy?—A. Certainly.

Q. And that, in many cases, the real value of the assets on which these securities were based was, for all practical purposes, the same?—A. How is it possible for the real value of physical assets to change from say the 29th of October, 1929, to January, 1930, by about 30 per cent or 40 per cent?

Q. How is it possible for the marketable value of them to change?—A. Oh, that is entirely a matter of monetary policy. There is no discussion as to what precipitated the crash of 1929. It was the calling in or falling due of loans in New York and the charge of 30 per cent and sometimes more on call money.

Q. You think that would be the chief cause of the depression?—A. I think that was the proximate cause, that is to say, the immediate cause, yes.

Q. And would you say further that depressions are inevitable or go in cycles?—A. No, not in the least.

Q. That we could build a system under which they would not appear periodically?—A. Certainly.

Q. And that should be our aim?—A. I think our aim is to go much further than that.

Q. But that that could be achieved, though, under the proposals which you would make?—A. Certainly.

Q. And do you think it is possible for us to do so—I am speaking now for primary producers because I am a farmer and I represent a farming constituency —do you think that some more stability of prices is necessary if our producers are to continue prices; you know something about the change in prices.—A. Roughly, yes. I think I made this statement here eleven years ago: I am not myself concerned to produce stability of prices. What I am concerned very strongly to produce is a reflection in the financial system of the actual facts of the physical system, and the actual facts of the physical system are that real costs, costs of production, are definitely decreasing, so that a system which did reflect accurately the state of affairs which is going on, in fact, would probably include a continuously falling price level and you may have to make arrangements by which that is not reflected in a loss to the producer.

[Major C. H. Douglas]

Q. Must not the producer, in some way, get a price that covers all his production costs?—A. Yes.

Q. That is the total cost of goods produced?—A. Yes.

Q. And under any system which you would recommend that would be one feature of it, I presume?—A. Unquestionably.

The CHAIRMAN: Gentlemen, are there any other questions. If not, this part of the inquiry is closed.

By Mr. Nicholson: (By leave of the Committee).

Q. I understood from Major Douglas' evidence of Tuesday, that in the application of a portion of his plan to another country—Japan—goods are sold at 50 per cent of the cost of production and the balance is made up by the government of the country on the general credit of the country?—A. In various ways, yes.

Q. Well now, I am tremendously interested in an industry that depends on the export of lumber. Could I export lumber to the United Kingdom at 50 per cent of the cost of production and have the government of this country make up the difference on the general credit of the country, and do that for an indefinite period?—A. Well, I will endeavour to explain to you what is the basis, the fundamental basis, on which it would be correct and possible to do that: Supposing that it enabled you to double your export of lumber by any financial process of that kind and you were enabled, at the same time, to increase your capital fund value by 100 per cent in the same period of time, that would be an increase of credit so far as lumber was concerned. I am assuming that lumber also includes saw mills, and things of that sort. That would be an increase in the capacity of the country to turn out goods in a given period of time, in this case, specifically in regard to lumber. Every increase in the rate at which a country can turn out wealth is an increase in the real credit of the country, and that real credit of the country can be represented by a financial equivalent, and if that real rate of increase in the real credit of the country can only be achieved in such a way that you export twice as much lumber as you did before, well, that is exactly what Japan is doing at the present time. Now, as a bearing on that, if you will allow me to read it, I received this morning from some unknown source, an ordinary commercial circular from one of the concerns which supplies what you might call general commercial information to interested business men, and I am interested, and this is quite fortuitous so far as I am concerned; I find this in it:

> It was our view that the Japanese Minister of Finance had a clearer conception of the world's monetary difficulty than the leading central bank authorities of either the United States or England.

And then, this is underlined:

> And that Japan, in the opinion of this bureau, would lead in world recovery and in the re-establishment of her credit.

By Mr. Irvine:

Q. Is that from a Canadian concern?—A. It is from a Canadian concern. I have no interest in it, and it is at the disposal of the committee. I do not place any more weight on it than perhaps anybody else would care to place on it. All I can say is, that what has happened in the past two or three years, in Japan, has undoubtedly enormously increased her capacity to turn out goods, and that increased capacity to turn out goods is a perfect justification for the creation of commercial credits and the application of those credits to a reduction of price, because if she had not reduced that price she would not have been able to increase her capital assets.

[Major C. H. Douglas]

By Mr. Nicholson:

Q. Just in passing, we certainly could increase our capacity to produce lumber as a tremendous rate....A. Of course you could.

Q. So long as the government would pay 50 per cent of the cost. Now, Major Douglas, we are not the only country in the world producing lumber, though. That might be sound for a time, but it would not be sound, if all our competitors in other countries did the same thing. I am leaving Russia out of the picture, but there are other countries competing against us in the lumber markets of the world to-day, and, if all their governments were to pay 50 per cent of the cost of production, where would the market ultimately go?—A. Well, I have answered that question before, and if you universally halve prices you are then applying the principle of the compensated price which I have advocated so that everybody in possession of purchasing power at the present time is enabled to buy more of everything because the price has been lowered.

Q. If you put such a proposition to work, you put it in without regard to the cost of production.—A. Undoubtedly. The main thing is to get rid of your lumber, so that you can sell more lumber.

Q. That is what I am trying to do and I am trying to find a way. I have a friend sitting beside me who is in a similar position and some of those who furnish the means to enable each of us to carry on are perhaps here. Now, that is the fundamental point, but let us follow it further. If, in the lumber industry, it is sound to sell lumber at 50 per cent of the cost of production and charge the balance to the credit of the country, would it not be just as sound to sell wheat, coal, cattle, pigs, and everything else, on the same basis?—A. Undoubtedly. What you want to do is to lower the general price level in order that you will increase production with the existing purchasing power.

Q. The principle then is, that cost and sale values have no relation whatsoever, if the nation can intervene and, simply by writing its cheque indiscriminately without limit, can put us in a position where we can sell our goods without any regard to credit.—A. Not indiscriminately or without limit. The limit is imposed by the rate of increment of the whole assets of the country. That is where the limit is imposed.

Q. Well, capital assets would rapidly disappear, if we continued that in the lumber industry.

By Mr. Vallance:

Q. Has your method not got anything to do with the ability to consume the goods? I asked you about wheat the other day. Is it not possible to create, by your system, such a volume of goods that we could not consume them?—A. Well, are you complaining about that, because our point of view is that at the present time there is a volume of goods which are not consumed although there are people who want to consume them. My proposition is, that whatever you may have to do ultimately in regard to your proposition that situation has not yet arisen.

Q. That is a problem to.—A. But that problem does not arise out of the fact that there are people in the world who want lumber.

Q. But there is a limit to consumption, you will admit that?—A. Certainly.

Q. But by this proposition you would create so much lumber, wheat, and so forth, a large volume of all of these so that they could not be consumed, even if everybody had all the goods that they could consume, and I would like to know just what we are going to do about it.—A. But is that the problem at the present time in the world?

Q. No, the trouble is that we cannot distribute the goods to give all those who are in need of consumption at least 100 per cent consumption.—A. I will tell you how to solve the other trouble when we come to it.

[Major C. H. Douglas]

Q. There has been a lot of discussion here this morning about new wealth. Would you mind defining to me, a grower of wheat, just how much new wealth I would create out of say a thousand bushels of wheat?—A. How much new wealth you would create out of a thousand bushels of wheat.

Q. Yes. I do not care what price you put on it. Suppose it costs me fifty cents a bushel to produce it and I sell it for one dollar a bushel, how much new wealth have I created?—A. Well, the only new wealth that you have created is so many bushels of wheat, that is all.

Q. That is to say, that that much in excess of what it cost me of existing wealth to produce, it only creates to that extent new wealth?—A. Yes, only that answer should be qualified, by the general production of the country. If you want a generalized answer, which is the only answer that can be given to questions of this kind, the general rate of increase of the wealth of a country in the increment of production over consumption for the same period of time.

Q. So that if I produce a thousand bushels of wheat that cost me 50 cents a bushel to produce—A. It does not matter what it costs.

Q. —and I sell it for 35 cents, have I expended 15 cents per bushel of existing wealth that cannot be recovered?—A. No. The only thing you have done is to produce a thousand bushels. The question of figures that are attached to it has no relation whatever to the physical effect.

Q. The point I am getting at, I am producing wealth, and the more I produce the less I have got.—A Yes. That is what I am complaining of.

Q. And under your system, under conditions as they exist today, if it was applied, I would have more.—A. Yes.

Mr. Vallance: Then I hope Government adopts that system.

Hon. Mr. Euler: In reply to a question by Mr. Nicholson, Major Douglas stated that there was a limit beyond which the country could not go in paying the difference between the cost of production and the sale price. Is that limit the amount of the cost of production over consumption?

The Witness: Undoubtedly. What is the use of producing purchasing power when you have not got anything to purchase with it.

By Mr. MacMillan (Saskatoon):

Q. I suppose you are aware that in Japan today practically the entire revenue of the country is being spent for war purposes?—A. In Japan?

Q. Yes.—A. Well, when you say "purposes,"—of course when one makes a statement of that sort it is undoubtedly the motive behind any policy which decides what you are doing it for, that is obvious, and it seems to be beyond reasonable doubt that the immediate motive of the Japanese people is at any rate preparation for war.

Q. They are expending practically the entire revenue of the country for war?—A. I agree.

Q. How long can they go on bonusing industry when they are only paying them 50 per cent of the cost of production?—A. Until the whole of Japan is absolutely covered so effectively with munitions factories that there isn't any room for any more.

The Chairman: Major Douglas, we thank you for your attendance here, and I think we will declare this branch of the inquiry closed.

The committee adjourned at 12:50 to resume at 4 p.m.

The committee resumed at 4 o'clock.

The CHAIRMAN: Item No. 1 of Mr. Power's resolution calls for an inquiry into: "The interlocking of directorates as between banks, trust companies, insurance companies and important industrial concerns and the effect of such interlocking directorates on the general, financial and economic condition of the country." By agreement Mr. Jackson Dodds, who is president of the Canadian Bankers' Association, filed a written brief which will be found in the proceedings of April 12th, at pages 472 to 473. Mr. Dodds is here and is available for cross-examination on his brief and on any analogous points that may arise out of it. I now ask Mr. Dodds to come forward.

Mr. JACKSON DODDS recalled.

Mr. POWER: Has Mr. Dodds any further statement to make?

The CHAIRMAN: Have you any further statement to make, with respect to the above subject matter of the inquiry?

WITNESS: I have not any particular statement to make, but there are one or two things I might say to settle the minds of some people who feel that interlocking directorates are a sinister thing. I would like to say, first of all, that I have never known a customer to be refused a credit because a director of the bank was interested in a business which was in competition with that of the customer applying for the credit. I should like also to touch on one other thing. Outside of the Canadian Pacific Railway loan, about which this committee has heard a good deal, we have on our books loans to companies of which two or more of the directors of the Bank of Montreal are directors, amounting to a comparatively small sum of $17,280,823. Of this amount advances of $11,114,209 are covered by cash and/or bonds with a large margin. This leaves $6,166,614, of which amount $4,837,583 is in one account, which was on our books before two of our directors joined the board of the company in order to render what assistance they could to get the company out of its troubles. This leaves $1,329,031 amongst the balance of the 36 accounts listed on page 1004 of the Minutes of Evidence.

Mr. POWER: Page 968, is it not?

The CHAIRMAN: No, 1004.

WITNESS: 1004, Mr. Power. Other than that, I do not think I have anything to say.

By Mr. Power:

Q. Are there any controlled companies in connection with the Bank of Montreal?—A. Yes, there are. We have a company called the Campania Territorial Mexicana, S.A., which is being liquidated. The company was formed to realize on the assets of the former United States Banking company in Mexico. The capital stock is owned entirely by the bank and carried in "Shares of and Loans to Controlled Companies" at the nominal value of $1. It is simply a case of liquidating some of the old matters down there, and the company was indebted to the Mexico branch of the bank on the 31st March, 1934, to the extent of 624,382.62 pesos, made up as follows,—liquidating loan, 121,000 Mexican currency; purchase of premises 300,808.71 pesos, loans secured by mortgages, 202,573.91 pesos, making a total of 624,382.62 Mexican pesos, plus $28,400 United States currency.

Q. Who are the directors of the company?—A. The directors of the company are the chief officers of the bank down in Mexico.

Q. How did you get into this transaction?—A. When we went down to Mexico originally, we took over as collateral certain assets of the United States Banking company, which has been gradually liquidated. That is all that is left of it.

[Mr. Jackson Dodds]

Q. A Mexican institution?—A. I do not know who the owners of it were originally, whether Mexicans or Americans. It dates back to 1911; it gradually went to nothing.

Q. It is in liquidation now?—A. Recently completed.

Q. What other controlled companies are there?—A. We have the St. James Land Company Limited with a capital of $200,000 owned entirely by the Bank of Montreal and carried at $1.00. The officers are officers of the bank. The company was incorporated by the Molsons Bank, which deeded over to it that portion of their property known as Lot "B" corner of St. Peter and Notre Dame Streets, Montreal.

The CHAIRMAN: The bank owned the stock?

WITNESS: Yes.

By Mr. Power:

Q. I suppose the Molsons Bank had a controlled company to look after its real estate?—A. Yes, the property being the head office of the bank.

Q. They had only one property?—A. Yes.

Q. That is now owned and controlled by the Bank of Montreal?—A. Owned and controlled by the Bank of Montreal.

Q. The directors are the directors of the bank?—A. No. The directors are officers of the bank. The secretary of the bank is the president.

Q. Who has the stock?—A. The bank owns the whole of the stock, which is only $200,000 and is carried on the books at $1.00.

By Mr. Geary:

Q. You secured the assets of Molson's Bank?—A. Yes, that is how we got it. We also have the Hochelaga Realty and Development Company. This company was formed by the bank to hold the premises of the New York agency. The Agents of the bank hold the stock certificates for account of head office in whose books they appear at "nil". A statement of that is attached to the balance sheet of the bank each year.

By Mr. Power:

Q. Have you any other controlled companies?—A. We have the Land Securities Company of Canada Limited, which was incorporated in 1893, under a Manitoba charter, as Land Securities Company of Manitoba Limited, by the Merchants Bank of Canada; and the title was changed later. The $200,000 capital stock is owned entirely by the bank and carried at $1. A reservation of $165,000 is held against an advance of $225,000 at Lombard Street, Winnipeg.

Q. This is some form of real estate which fell into the hands of the Merchants Bank and is merely being, as you say, written off and worked off?—A. Yes.

Q. And the St. James Land Company Limited?—A. No, not the same thing at all.

Q. This is real estate which the bank took over?—A. Yes, the Merchants Bank.

Q. In the ordinary course of its business, and formed the company?—A. Yes. We bought the assets of the Merchants Bank, and amongst them this company which we are liquidating.

Q. Can you tell me if that practice, which the Merchants Bank indulged in at that time, that is to say, turned over certain real estate to a subsidiary company, is still being indulged in by any of the banks—I am speaking to you now as the president of the Bankers' Association?—A. Not to my knowledge, but you can ask the other general managers. As far as I know it is not done, except in cases as was explained by Mr. Wilson the other day in connection with some bank premises.

[Mr. Jackson Dodds]

Q. I was speaking of real estate controlled in that way, held in the way of bank premises by the bank?—A. Yes.

Mr. WILSON: Purely bank premises

By Mr. Power:

Q. This is real estate that the bank took over in the course of its business? —A. Yes, the Merchants Bank.

Q. I do not think there was anything against it in the Bank Act at that time. It was in 1893 that this company was formed, was it not?—A. That was 1893, yes.

Q. I do not know whether or not there was anything against it in the Bank Act.—A. We have always been forbidden to loan against real estate. It must have been the taking over for sale of real estate at that time, that would fall into their hands. I imagine it was felt they were better qualified to get the things cleaned up. We have continued that process of liquidation, so that as you see there is little over $60,000 left.

Q. What I am trying to get at is this: is it possible for a bank to get away from the provisions of the act?—A. Not now.

Q. What prohibits them from holding real estate, by turning over real estate to controlled companies?—A. In recent years legislation has been introduced requiring that all controlled companies' balance sheets shall be given out with the annual balance sheet of the bank.

Q. I think it was not until 1923 that legislation was put in?—A. Then, we have one more company, the Edificio Montreal, S.A.—Mexico, which was formed in July, 1930, in conformance with Mexican legal requirements, for the purpose of holding and administering the property in which the Bank's Mexico City branch is housed, with a capital of 750,000 pesos Mexican currency divided into 100 shares of 7,500 pesos each. These shares are in the names of our manager and others down there, and the certificates lodged with the Bank of Montreal, Mexico, to its own order. The bank's investment in Mexico branch premises is carried in head office books at a nominal value of $1.

Q. I suppose there is some statute in Mexico which provides that real estate should be held by Mexico citizens or Mexican corporations?—A. That is right.

Q. And that is done to comply with that statute?—A. Yes, there are two Mexicans on the board. That is all.

Q. Is there a company called "Bankmont"?—A. Yes, there is. I am not sure whether it is a company or a partnership. It exists for one purpose, and one purpose only; that is to hold securities which we wish registered in our nominees' name, our nominees in that case are Bankmont. For instance, if one of you gentlemen were to borrow from the bank against shares that had to be registered we would register them in the name of "Bankmont Co."

Q. Is that a controlled company?—A. No.

Q. It has no property itself?—A. No, it has not. It owns nothing and does nothing whatever except that.

By the Chairman:

Q. It is not an operating company?—A. Not an operating company at all, just a nominee.

By Mr. Power:

Q. Who are the officers?—A. Well, I am not sure about the names of the authorized signing officers but presumably they would be the manager of the Montreal branch and the assistant manager, together with somebody else. It is used simply to register stocks held as collateral.

Q. It operates throughout Canada?—A. It would only operate in Montreal.

Q. In Montreal?—A. Yes.

[Mr. Jackson Dodds]

Q. Purely for the purpose of holding securities?—A. For no purpose whatever other than holding the securities of our customers.

Q. Does it charge anything for that?—A. No.

The CHAIRMAN: They get interest on the loans.

By Mr. Power:

Q. Does it loan money?—A. No.

Q. How does it live?—A. It does not.

Mr. HACKETT: It is not a company.

The WITNESS: It is not a company.

Mr. HACKETT: Trustee.

The WITNESS: Nominee.

By Mr. Power:

Q. My friend Mr. Mackenzie asks if it lives on Social Credit?—A. I think it would starve, if it did.

Q. According to your version it must starve because it has no ostensible means of support?—A. It neither breathes nor has being, in the ordinary sense.

Q. It does nothing else except that, and makes no charge for those services?—A. No.

Q. So far as you can recollect it is a partnership?—A. Yes.

Q. Registered in Montreal, and operates only in Montreal?—A. Yes, so far as I recall.

Q. Does it do a very large business?—A. No, it does not do any business, other than accept in its name shares turned over to us as security requiring to be registered and transfer out of its name securities that are released by repayment of the relative loans, thus avoiding cumbersome formalities of transfers to and from the bank.

Q. Why could not they be registered in the name of the bank?—A. I will give you an instance of why it is not advisable to do that. I remember one bank, which is now out of existence, that registered some shares in its own name and then awakened, one day, to find there was an unpaid liability of about $60,000—and had to pay it.

Q. Is this one way of getting a bank away from its liabilities?—A. No.

The CHAIRMAN: It was not a liability of the bank.

The WITNESS: It was not a liability of the bank at all, but of course, when stocks are registered in your name and there is an uncalled liability and the company goes smash you have to pay. There is nothing else you could do.

By Mr. Geary:

Q. Who pays it, if they are registered in the name of the company?—A. Well, if they cannot get it out of the actual owners of the shares, I think they would be out of luck.

By Mr. Power:

Q. The company has no capital?—A. No.

The CHAIRMAN: As I apprehend it, the company is a trustee. Suppose I had a loan with the bank and the bank had securities of mine and they wanted to get them out of my name, they would register them in the name of the local manager and some employee of the bank—in this case they would register the stock in the name of Bankmont and Company.

Mr. POWER: And call it Bankmont money? It must be registered not only in the limited company or corporation, it must be registered in other places, where they find any of the services, or some such institution—

[Mr. Jackson Dodds]

The CHAIRMAN: It would depend on the laws of the local jurisdiction.

The WITNESS: I will get you some more information about it if you wish.

By Mr. Power:

Q. Has the Bank of Montreal any real estate company?—A. No, other than those about which I have told you.

Q. How are your real estate holdings shown?—A. They are shown in the Bank Premises account, as holdings of the bank; other than just those few instances I have told you about, the bank holds them as stated. We have no bond issues; and we have no real estate company other than those that I have spoken about and which are shown in the annual statements.

Q. Do you make any difference between your bank premises and the real estate that you might have taken over for bad debts and things of that kind?—A. I do not quite catch your question.

Q. Do you make any distinction in your statement or anywhere else?—A. There are three headings in the government statement. Item 21 reads "real estate, other than bank premises;" Item 22, "mortgages on real estate sold by the bank," and 23 "bank premises at not more than cost, less amounts (if any) written off."

Q. I wonder if the clerk has a copy of the monthly bank statement—

The CHAIRMAN: Yes, but read R.S.C. Chapter 12, Schedule G.

By Mr. Power:

Q. What items did you say?—A. Under assets, items 21, 22 and 23.

The CHAIRMAN: Schedule G, of the Bank Act.

By Mr. Power:

Q. The Bank of Montreal, according to statement as of January 31, 1934, holds real estate other than bank premises to the extent of $509,693?—A. Yes.

Q. According to the statement as of January 31, 1934?—A. I was reading from the government statement.

Q. Return of the chartered banks of Canada. This is your return made to the government?—A. All right, Mr. Power.

Q. What would that actually represent?—A. Well, it must represent this—what does it say again?

Q. Real estate other than bank premises?—A. That item No. 21. That is simply real estate, in our hands, other than bank premises, real estate on which mortgages have been foreclosed, and other property which we held as additional security, and which has come into our hands. It stays there, until it is sold. We have a limited time in which to sell it, unless we get permission of the government to carry for a further period.

Q. Just from memory, does that vary very much; does it run to just about the same?—A. It does not vary very much. Of course, every now and again we may get say $5,000 for a property, and the total is reduced by that amount. Roughly speaking, I think the figures do not vary a great deal, speaking from memory.

Q. I suppose you have no difficulty in obtaining an extension, or delay?—A. No. I think we have had very little of it in our case. We can always show a good cause. We do not want to keep a fixed asset; if we can, we get rid of it at once.

Q. You do not want to keep money in real estate, but in times like these it must be very difficult to dispose of it?—A. Yes; but you see that even in times like these the total is only about $500,000.

Q. Then, in the next column, 22, you have mortgages on real estate sold by the banks?—A. That is the case where we sell a property and get a mort-

[Mr. Jackson Dodds]

gage for the balance unpaid. For instance, giving a hypothetical case, when the Bank of British North America was taken over, we had the old head office of that bank, which we might have sold for $100,000 down and the balance over four years. Such a balance would appear under heading No. 22. This particular building we sold for cash; but if there had been a balance represented by mortgage it would have been included under No. 22.

Q. Would it be possible to evade the provisions of the Bank Act by selling some of your properties at a small cash payment and using a very high mortgage?—A. Pardon?

Q. Would it be possible to evade those provisions of the Bank Act which call for the sale of property after you have held it for a certain limited time by selling this property for a small cash payment and leaving a large mortgage on it?—A. I am quite convinced no one here would ever suggest that I would be a party to a thing of that kind, because I would not. I think it would not be possible. Apart from anything else, apart from the moral side altogether, if I did that and was caught, I would go to jail.

Mr. Jacobs: You would only have to hire a good lawyer, that is all.

By Mr. Power:

Q. We are at cross purposes. I simply suggest that the time might arrive when a bank was left with a lot of real estate, or had more real estate than it should have. If it wanted to get rid of some of that, it would sell some of its real estate for a small cash payment, leaving a large mortgage on the rest?—A. Well, it would show under heading No. 22 instead of No. 21, and the figures could be seen by anyone who wanted to see them. See what the totals are in these bad times.

Q. The sum total of all banks' total real estate, other than bank premises is $7,000,000 and the total of mortgages is $6,000,000?—A. Yes; that is $13,000,000 out of total assets of how much for all banks?

Q. $2,700,000,000. In your particular case, the Bank of Montreal, the real estate other than bank premises is $500,000; mortgages on real estate, etc., $1,189,160.—A. Out of about $750,000,000.

Q. $720,000,000. Now, coming to Item No. 23, I notice that the Bank of Montreal has $14,500,000 in bank premises.—A. Yes.

Q. Now, do you write down the bank premises?—A. Yes, we write them down from time to time and that is reported, of course, in our annual statement to our shareholders.

Q. So this $14,500,000 does not represent either the actual value or the real cost of the bank premises?—A. No, it does not.

Q. It is considerably below?—A. It is below, yes.

By Mr. Geary:

Q. That is, after the writing down?—A. Yes.

By Mr. Power:

Q. You have no fixed percentage of write-off annually?—A. No. As a matter of fact, we have not made any alteration for some time in that connection. We think it is a fair valuation for the purpose.

Q. Now, could you tell me about the relations between the Royal Trust Company and the Bank of Montreal?—A. I will be very glad to tell you what are the relations between the Royal Trust Company and the Bank of Montreal; that is very easily answered. There are no relations between the Bank of Montreal and the Royal Trust Company other than as between bank and customer. The Bank of Montreal does not own any shares at all in the Royal Trust Com-

pany. The connection of the Bank of Montreal with the Royal Trust Company is one of close association, due to the fact that it was a group of Bank of Montreal directors and friends who formed the Trust Company, away back in 1899. None of the original directors are now living, but I understand that some of the directors of the bank, and their friends, were not satisfied to leave the administration of their own estates to personal executors, and they thought it wise to form a Trust Company which, with close association with the bank, would probably be efficiently managed, and they probably thought the stock of the Trust Company would form a satisfactory investment. The Bank of Montreal does not own, and never did own, a single share of stock of the Royal Trust Company. I have heard it said that the company directors collectively own less than 15 per cent of its stock.

Q. You do not know?—A. I do not know, Mr. Power.

Q. I am expecting to receive a similar reply from the general managers of all the other banks, if I refer them to Trust Companies with which they are commonly supposed to have some relations. Will you not admit this, that it does seem extraordinary that each one of the larger banks has a Trust Company which, in the public mind, is closely related to it?—A. It does not seem the least bit extraordinary to me that the public have that in mind. That does not seem extraordinary for the reason I have just stated, but both concerns are run absolutely apart one from the other. Perhaps I can give you an instance, a recent instance, of something that happened that will show you how far apart they are. When the Deputy Minister of Finance opened his tenders for Treasury Bills the first time, he was perhaps surprised to find that the Royal Trust Company overbid the Bank by a good deal, although the Bank wanted to get these Treasury Bills. However, the Trust Company got the bills and the bank did not. There is no connection in any way between the management of the companies and the Bank. I have a few shares in the Trust Company which I bought, but other than that I have no connection with it whatever. I have not been to their annual meetings; I have nothing to do with the running of the Company, and if it interfered with the running of the bank it would soon know about it. They have nothing to do with us at all.

Q. You are neither a director nor an administrator of the Royal Trust Company?—A. I certainly am not.

Q. You do not mean to tell me, that if there was any trust business to be given that you would give it to the Montreal Trust or the National Trust?—A. Mr. Power, if you were as good a friend to me as is the Royal Trust Company, and somebody wanted a lawyer, I would probably recommend him to go to you.

Q. But, as a matter of fact, it is generally supposed that the Royal Trust Company does the business of the Bank of Montreal, whenever there is any trust business to be done.—A. Well, I do not know that we have any trust business. I cannot recall that we have any trust business that we would have to give out to anyone. As I say, our relations are friendly but we have nothing to do with one another in the ordinary administration of the bank or the company.

Q. What do you say about the accusation, if I might put it that way, frequently brought against the banks that they use Trust Companies to do, by the back door, things which the Bank Act prohibits them from doing directly?—A. I would say, Mr. Power, as far as the Bank of Montreal is concerned, it is absolutely untrue. The Bank of Montreal does not do, by the back door, anything it cannot do by the front door, and, if there is anything that would not stand the light of day, neither the general manager nor the directors would stand for it.

Q. Well, then, perhaps I had better put it this way: Are Trust Companies sometimes used by the banks to do things, which in themselves are perfectly

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legitimate, but which are not permitted under the Bank Act?—A. Could you give me an instance, because I have no knowledge of anything of the kind.

Q. I am afraid I cannot, until I question you further. What does the Royal Trust Company do, what are some of its functions?—A. Oh well, I cannot tell you just what they do. They do the ordinary Trust Company business. You are going to have another witness up here who is connected with the Royal Trust Company and you can ask him what they do, but I have no knowledge, of my own, except the general knowledge that they do the ordinary Trust Company business, looking after investments and estates and so on.

By Mr. Arthurs:

Q. And they loan money on real estate?—A. Yes.

By Mr. Power:

Q. They do loan money on real estate?—A. Yes, not their own money, but the money of their clients. You will have to ask the president of the company.

By the Chairman:

Q. Do they administer, as trustees, your pension fund?—A. No, they do not. We administer our own pension fund, that is to say, certain officers of the bank administer the pension fund society of the Bank of Montreal.

By Mr. Power:

Q. Could the Royal Trust Company be called an investment banker?—A. No.

Q. Now, would you tell me who are on your board of directors who are also on the board of directors of the Royal Trust Company?—A. That is all in this return, Mr. Power. Shall I read the names, at page 1006.

Q. Page 1006, Appendices, I notice here that of the directors of the Bank of Montreal, on other boards, who are on the Royal Trust Company board are Sir Charles Gordon, G.B.E.; H. R. Drummond, Esq.; Major-General the Honourable S. C. Mewburn, C.M.G.; D. Forbes Angus, Esq.; Lt.-Col. Herbert Molson, C.M.G., M.C.; the Honourable Henry Cockshutt; E. W. Beatty, Esq., K.C.; F. E. Meredith, Esq., K.C., etc.; the Hon. Thomas Ahearn; J. W. McConnell, Esq.; W. A. Black, Esq.; W. N. Tilley, Esq., K.C.; Sir Frederick Williams-Taylor; R. H. McMaster, Esq.; and C. F. Sise, Esq., fifteen in number. And, in another column, I see the total number of directors. Is that the directors of the Bank of Montreal or the directors of the Royal Trust Company?—A. No. The total number of directors of the Royal Trust Company is twenty-five of whom fifteen are directors of the Bank of Montreal.

Q. So that the majority of the board of directors of the Royal Trust Company is composed of men who are also directors of the Bank of Montreal?—A. Correct.

Q. I agree with you that the word "interlocking" is, perhaps, not the proper word one should use in this connection, but do you not think it is fair to say that the companies are closely associated?—A. They are associated only in the sense that I have explained, that a number of the directors felt that it would be a good thing to start a trust company away back in, I think I said, 1899, and naturally I suppose it has followed throughout the years that some people who have been chosen as directors of the Bank of Montreal have been made directors of the Royal Trust Company, that is, the Royal Trust Company would like to keep them as directors simply because they were gentlemen of high character and integrity, that being the reason why they were

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selected as directors of the Bank of Montreal, and they might be able to influence business to the Royal Trust Company.

Q. Well, is there any question but that, through their connection with the Royal Trust Company, or with the bank, that they can influence business in favour of the Royal Trust Company?—A. No, not specially because they are directors of the bank, because I do not know of any particular business that there is to influence to the Trust Company from the bank, or vice versa, as far as that is concerned.

Q. The Royal Trust Company does an insurance business, does it not?—A. The Royal Trust Company has a subsidiary company, the Royal Agencies, which does an insurance business.

Q. Is there not a possibility that the connection between the two directorates might influence insurance business in favour of the Royal Trust Company?—A. No. The apportionment of the Bank of Montreal's insurance is based on the business that we get from different companies. We make out a schedule of our insurance and we divide it up according to the value of the business that we get from the various insurance companies. The Royal Agencies help us to prepare the schedule of insurance, but we fix the allotments and the Royal Trust Company has nothing whatever to do with it, and do not know anything about it. We allot, say, 10 per cent of the total to one insurance company, 5 per cent to another, 4 per cent to another, and so on. The Royal Trust or Royal Agencies have no influence whatever in the matter.

Q. Is the insurance placed through the Royal Agencies?—A. They are general agents and it goes through them.

Q. Is all your insurance placed through them?—A. Yes, they look after it.

Q. That is, the insurance of the Bank of Montreal. I am not speaking now of the bank's clients. The Bank's insurance is placed through them?—A. The Bank's insurance is placed through them in these various companies. They do all the work in connection with it; they are just our brokers, the same as you engage any other broker.

Q. How about any insurance that might be required by clients of yours?—A. We do not influence our clients in the matter of placing their insurance. All we ask is that it shall be in a satisfactory company and we use Best's Ratings. If it satisfies them it satisfies us.

By Mr. Robinson:

Q. Is that what you call a general policy that covers all the banks?—A. No. What I am referring to is, that if we have insurance to place on our buildings we place it, as I have explained. If our customers have insurance to place and we have as security the property which is being insured we do not say what company it shall be insured in at all, as long as it is in a company that is satisfactory to the concern I have mentioned, which makes ratings for insurance companies.

By Mr. Power:

Q. Does the Royal Trust Company bank with you?—A. It certainly does. It is one of our best friends, as I have explained.

Q. Mr. Wilson says he has never been able to get any of that account.—A. I hope he never will.

Q. It is a pretty good customer, I suppose?—A. Oh, yes, it is a good company and it is a good customer.

Q. They would not require any overdrafts?—A. Well, every now and again they require something, but, unfortunately for us, they always have enough money to cover their overdraft. Whenever they do bororw we are probably better secured in any advance we may make to them than to anybody else.

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Q. It has been suggested that, with fifteen directors, who are directors of both companies, the Bank of Montreal would have no difficulty in holding that business. Do you do any other business for the Royal Trust Company except the ordinary banking business?—A. No.

Q. Does the Royal Trust Company do anything for you?—A. Yes, they do, in connection with our Pension Fund, they look after the mortgages for us, but that is all that I can recall.

Q. Do you ever buy from, or sell securities to, the Royal Trust Company?—A. We may have at times bought some securities from them for customers but, in the ordinary way, we buy our own securities. We are in that business ourselves. We buy and sell bonds, we do not need to use the Trust Company for that purpose.

Q. That is, you deal through your own bond department?—A. Yes.

Q. And you do not use the Royal Trust Company for that purpose?—A. No. If they happened to have something to sell, and it was cheaper to buy from them, then we would buy from them but otherwise we would not do so.

Q. You told us that the Royal Trust Company was formed originally for the purpose of acting as executors for a number of the directors of the Bank of Montreal.—A. No. I said that I understood that some of the directors of the bank, and their friends, who were not satisfied to leave the administration of their own estates to personal executors, really thought it was a good thing to form a trust company.

Q. Perhaps you can tell me, how far has the Royal Trust Company strayed away from that original purpose of being only executors?—A. Well, that was what these gentlemen thought. They bought the charter, as I understand of an already formed trust company, and the Royal Trust Company now carries on a regular, ordinary trust company business. I could give you another instance, I think, of how that company is in opposition to us, in fact, I can give you a few instances. They are constantly loaning money to brokers and others to whom we would like to lend, at lower rates than we will lend it, and there is nothing we can do about it but put up with it.

Q. If I were you, at the next meeting of the board of the Bank of Montreal, I would raise the devil with some of your directors for allowing that to be done. I think perhaps they might listen to you.—A. Besides that, they pay a higher rate of interest on the money they take in on deposit.

By Mr. Spencer:

Q. How do they do that?—A. They can invest it in mortgages and so on, which we cannot do.

By Mr. Power:

Q. Leaving the Royal Trust Company, for the moment, because I do not think I can get anything out of you on this point, I am reading now from the brief which you filed on April 12.

The CHAIRMAN: What page?

Mr. POWER: Page 472, Mr. Chairman.

The WITNESS: The brief on interlocking directorates.

Q. Yes (Reading):

> "It is a matter of primary importance to the four and a half million depositors and the 400,000 borrowers that the banks should be under the direction of men of the highest standing in all respects."

A. Yes.

Q. Now, without reflecting in any way on the standing of any of these men mentioned, either in your bank or any other bank, I gather that you take it to be that directors are just as you say here, men of the highest standing. Highest

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standing from the standpoint of wealth, is it not?—A. Not at all. I do not think that because a man has money he has the highest standing, far from it, in some cases.

Q. Of course, I am not familiar with the financial situation of any of the gentlemen mentioned here, but I would be willing to bet that there are very few of them paying as low income tax as any member of this committee. It has been suggested they do not pay that tax at all.—A. I said in my brief:

> In selecting directors from men of the highest standing, the shareholders of banks in Canada, as in England, choose those who have been successful in their own business and who will bring to the councils of the Board wisdom born of successful experience in various businesses and professions, which will be of value in directing policy.

Q. I am coming to that in a moment.—A. Right.

Q. But the first statement you made was " men of the highest standing in all respects."—A. I mean, character and so on.

Q. And I ask you if you really mean of the highest standing financially?—A. I say " in all respects," not just financially.

Q. In reading over this list—and I say again without any reflection whatsoever on any of these gentlemen—that at any rate they have a high standing financially.—A. I am glad to hear that. As I said, we choose them from men who have been " successful in their own business."

Q. We will come to that in a moment, Mr. Dodds, but is it not a fact that very often, largely through accident, men are successful in their own business and acquire great wealth?—A. I sometimes wonder how much accident there is in those things. I cannot say, but if we thought a man had arrived there by accident he probably would not be one of those selected. They are selected because of their high standing—character and so forth are considered.

Q. Does it not very often happen that the son of a man who has achieved a certain amount of success in his own business is appointed to succeed his father on the board of directors of a bank?—A. Well, I think it is possible that it has happened, but it is not the first and second generations that usually grow up and become useless. I do not want to mention any names, but there are men on our Board who have been successful in their own right but who also inherited large sums of money.

Q. So that in that case, at any rate, they have perhaps not been so selected, but sometimes they have been selected before they had a chance to show whether or not they would achieve success in business, is not that right?—A. Well, most of them are keen and they achieve success in business in one form or another.

Q. Most of them are, yes.—A. Yes, such a large proportion that I think banks could well afford to drop in an odd one, if there happen to be any odd one.

Q. Could you tell me why, as a rule, a man wants to be on a board of directors?—A. Yes. If I may, I would say that there is a good deal of honour in being a director of the Bank of Montreal. I am not now a director but I may be, some day, and, if I am, I shall regard it as a great honour. I am not asking for the job just now.

Q. It might be an Irishman's promotion.—A. It would be in one sense, but, on the other hand, money is not everything.

Q. But there must be some motive which usually animates somebody who is asked to go on the board, or indused to go on the board, as a rule.—A. Yes, as I suppose there is some motive that animates the man who is asked to become Prime Minister. It is an honour.

Q. That, in most cases, is because he likes the job.—A. I am not so sure about that, having talked to a few of them.

Q. There is this too, in some cases at any rate, a man may be animated by the high motive of wishing to serve the people. I can quite see that a patriotic

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motive would exist in that case, but, in the case of a bank director, do you think that the same applies?—A. I think men who are in the business world, and who are successful, appreciate it when they are asked to go on the board of directors of the Bank of Montreal because they feel it is the seal not only of their financial standing, as you have put it, but also, after hearing me express my views of the kind of people we ask to go on the board, that they are getting the imprint of the "highest standing" in all respects.

Q. Is it not a fact that a great many wish to be on the board and are glad to be on the board?—A. Yes, a great many wish to be on the board.

Q. A great many are glad to be invited to be members of the board, either your bank, or any other bank, on account of the standing which it gives them in the business world, and secondly, the particular advantage which they might thus get over others.—A. Well, I do not believe that there is any particular advantage that they can get over others. What could it be other than, of course that they would get the director's fees? But, if they have reached a high standing in the business world they surely will not be interested in that alone. What kind of advantage would they get for instance?

Q. Well, would they not have a sense of power and authority in the business community, if they were bank directors?—A. They might have, but after coming to a few meetings they would realize that the board discuss policies, and so on. The granting of advances is done only after the general manager recommends such advances.

Q. I am going to assume that the people in the business community are no more unselfish than other people—any ordinary cross-section of the Canadian people— and, unfortunately perhaps, because we are in politics, we come across selfishness more perhaps than you do.—A. I think that may be likely.

Q. But not amongst ourselves.—A. Oh, I see.

Q. I do not want to be misunderstood by my colleagues. Would it be fair to say that a great many men go on boards because they think there will be some advantage to them or the concerns with which they are connected?—A. Well, I think you had better ask one of the directors. I cannot conceive that there is any great advantage to them.

The Chairman: Mr. Power, do you not think that that is a question that should be directed to the individual directors themselves. I do not see how this witness can answer that.

Mr. Power: I did not ask Mr. Dodds to come here this afternoon. I was perfectly satisfied with the evidence he had already given.

The Witness: Mr. Power, I would think that it is a great honour to be a bank director. It is for him to see that the savings of the public are properly administered. Take, for instance, the City and District Savings Bank, of Montreal, what possible benefit could there be, to the people on the board of that bank other than the feeling of a job well done.

By Mr. Power:

Q. Now, you say in your brief: "It is desirable, if not essential, that there shall be on a bank board men who represent, and have association with, the leading lines of business and industry in the country."—A. Yes, Mr. Power. A general manager of a bank cannot have a close personal knowledge of all the business in the country. He can have an ordinary banker's working knowledge of different businesses, I have been over all sorts of businesses and looked into them and so on, but when I wish to know something about the cattle business, for instance, I have no hesitation in calling on—

Q. You call up our friend Colonel Mullins.—A. I am sorry, I would not. I would call on my friend Senator Pat. Burns and I would ask him something

about it. Or, if I wanted to know something about the steel industry, I would ask Mr. Ross McMaster, and so on.

Q. Could not you do that through another director of the bank?—A. Well, here are men, directors of the bank, who have been put there because of their standing in the community and we believe they will give us the best advice they can in connection with a particular business, and without any axe to grind.

Q. Do you not, as a matter of fact, in practice, very often consult leading business men in these lines, irrespective of your directors?—A. Oh, yes.

Q. Your branch managers particularly do so?—A. Of course, they must.

Q. They must?—A. Yes. They have to keep in touch with the business community. Obviously they ask them questions.

Q. Would it not serve the same purpose, in a general way, for the bank to do it from Head Office?—A. No, I think we want somebody who is really in close touch and who has some responsibility to the bank.

Q. Now you say applications for loans come from individuals and corporations engaged in every industry, and it is therefore obviously helpful to have one person, at least, on the board, who has special knowledge of the business carried on by an applicant for large advances and the existing conditions relating to that business. Might not the individual who is the applicant for large advances be a competitor of the gentleman you have on your board?—A. Mr. Power, I have never known, in my experience, anybody to be turned down for an advance who was entitled to it, from a banking standpoint, because a director happens to be in opposition in the same line. I have never seen any such influences exerted.

Q. Again, your directors are only human beings?—A. They are human beings, but I am general manager of the bank, and I can speak authoritatively on that. I am present at all board meetings. I listen to what the directors say; I am glad to have their advice, but I have never known them to use their influence to stop any one getting a credit or to harm a competitor, through the knowledge or information that they acquire on the bank board.

Q. Might it not be possible for them to paint only certain colours of the picture?—A. Well, you asked me just now if we did not talk to other people as well. We do; we ask other people their views, as well about conditions, and so do I. As I said, they have no responsibility; the directors have. And if any director started to use his position to down a competitor, there are enough men of character on the board of our bank to down him, pretty quickly.

By Mr. Jacobs:

Q. The director, of course, would know something about the individual character of the man who is engaged in the same business as himself, and it would be his duty to disclose that character, would it not?—A. That is about right.

By Mr. Power:

Q. Mr. Dodds gave us to understand that he would not disclose it very much?—A. Disclose the character of anybody?

Q. If it were unfavourable.—A. Oh, our directors certainly would. I have no desire to create that impression. If any of our directors thought that a man was not a fit and proper person to do business with he would tell me why and then I would check it up, in justice to the customer.

Q. Now, I put this to you, and I do not expect you to answer it in the way I want you to.—A. That is too bad, Mr. Power.

Mr. GEARY: You had better give him the answer and then ask him the question.

By Mr. Power:

Q. We are under the impression that persons who accept the position of a bank director do so because they have some interest other than the honour and prestige attached to a bank director, and that banks, on their side, invite those persons to join the board because there is something—some gain other than their character and advice—to be gained by the bank having such men on the board?—A. I stressed in my memorandum two primary attributes of a bank director, and would like " frankly to mention a third; he should be a man who can and will be helpful in influencing safe and profitable business to the bank."

The CHAIRMAN: You might Mr. Power, direct attention to the first part of your question, because it struck me as being peculiar.

Mr. POWER: The first part of the question dealt with the interest of the person who takes a seat on a board, and the second part was the reciprocal interest of the bank in inviting him to take that seat.

The CHAIRMAN: This witness can speak as to the second part, but do you think he can speak on the first part?

Mr. POWER: I do agree with you, Mr. Chairman. I do not however, think there is anything else I can ask this witness. The object of pursuing this investigation is to see if there is any evil arising from the interlocking of directors, and, if there is any evil, we ought to know about it.

By Mr. Power:

Q. I shall now put it to you very frankly, Mr. Dodds. Is there any evil, to the body politic, arising out of the practice which exists in Canada of having a large number of men on different boards of directors who, at the same time, act as bank directors?—A. Absolutely none, in my judgment.

Q. This question was discussed before the Macmillan commission?—A. What page?

Q. Paragraphs 276, 277, 278 and 279, page 78. 276 draws attention to the fact that complaints have been heard, throughout Canada, with regard to this practice and tells us that there has been certain discriminations?—A. Yes, and it also goes on to say no evidence has been adduced......

Q. I am coming to that. 277 says, "no evidence has been adduced" to show any such discrimination. 278 rather affirms your viewpoint that it is in the interests of the banks, and in the interest of the country, that men of prominence in affairs should be on the board of different companies and then it says: " It must be left to the sense of propriety of directors not to place themselves in a position where their interests may conflict with their duty or which may justifiably attract unfavourable comment." You notice the use of the word " justifiably"?—A. Yes.

Q. You will admit whether justifiably or not, there has been considerable unfavourable comment?—A. Yes, by the uninformed. I think that is why I welcomed this paragraph of your motion. I looked upon your questions as the Chairman suggested, in this way, that you want to throw light on this thing, and if there is anything wrong, let us find it, and have it corrected. I say there is nothing wrong in my judgment.

Mr. JACOBS: That does not apply to the United States, does it?

WITNESS: I am thankful I do not have to answer for the United States.

By Mr. Power:

Q. It is a matter for each person's individual judgment, as to whether he believes that the directors of banks, placed in the position of trustees, which, after all, they are for depositors, will conform strictly to what the individual thinks should be his sense of duty. I do not suppose we can get very far with this, except to elicit what we can in the way of facts?—A. I agree.

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Q. As to what conclusion we draw from those facts, there is no way of controlling that, either your side or my side?—A. I take it your side is my side. I think you are rendering a public service—I do not want to flatter you; you would not like that—in bringing this question up. You have rendered a public service, because it will let a little light in on this thing, and that is a very good thing.

Q. We try to get all the light we can?—A. Yes.

Q. In order to get little more light, I would refer you to paragraph 279 which says:

> We agree however, that directors should not vote or be present at meetings of their boards when credits to themselves or any firms or corporations of which they are partners or directors are under consideration, and we are informed that most of the banks have by-laws to this effect, which in practice are strictly obeyed. We suggest that all banks have such a by-law. It says, " all " banks?—A. Yes, I quite agree.

Q. As president of the Canadian Bankers' Association, do you know if " all " banks have such a bylaw?—A. No; I think nearly all have, but I cannot offhand just tell you which, but I can find out; but, in any case, Parliament, as I understand it, is dealing with the matter. It is suggested to me that one of the amendments to the new Bank act, reads,

> In no case shall a director of the bank be present or vote at a meeting of the board during the time when loans or advances to himself or any firm or corporation of which he is a partner or director are under consideration.

I think that is now the general practice, anyway.

Q. Is that an amendment to the Bank Act, or is it an amendment introduced since the Bill was referred to the committee?—A. It is not in the present Act, but it is in the bill.

Q. As introduced to the House. Tell me this, does it make any difference, in actual practice, whether the director votes or not?—A. Well, the voting part is not so important.

Q. It is not important at all?—A. In the first place, the credit would not go before the board, for approval, unless the general manager recommended it, and the general manager does not approve, unless he thinks the loan is a good sound one.

Q. So that this amendment is hardly worth the paper on which it is written?—A. Yes, I think it is.

Q. Why is it, then?—A. I think it is because the public will then know that if anybody on a board wanted to say something he would not care to have the senior member concerned, if I might use that term, hear, he could say it without embarrassment. I think that is perhaps a good thing. You know, lots of people will say things when you are not there.

Mr. JACOBS: Hear, hear, they always do.

By Mr. Power:

Q. You told me a moment ago that no loan of any consequence came before the board unless it was passed upon by the general manager? Is that so?—A. Yes, and I have never had a loan—

Q. What would prevent me, if I were the president of the Bank of Montreal, from going to you and arranging for a loan without attending the meeting of the board?—A. Mr. Power, you would not suggest there could be collusion between the president of the Bank of Montreal and myself?

Q. No; I am only supposing this.—A. He would tell you, I believe, if you asked him—perhaps you had better ask him—what would happen if he tried to

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get me to put through something that I did not agree with as being right. He would tell you I would turn it down at once.

Mr. Jacobs: You would not suggest he would do such a thing?

The Witness: No; I know he would not do it.

By Mr. Power:

Q. Again, turning to the old adage, we are all human, and most of us are extremely selfish?—A. I do not know; I am not sure that most of us are so selfish. I think the average human is pretty generous.

Mr. Coote: Hear, hear.

By Mr. Power:

Q. When his own interests are concerned, he likes to think of himself a little bit; you will admit that?—A. Yes.

Q. I would suggest to you that your president—and this is without any reference to Sir Charles Gordon, or yourself, but to banks generally or presidents of banks generally—must necessarily have a great deal of influence over the general manager, when he comes in to discuss a loan for a company in which the president is interested?—A. I tell you that if I went to the president of the bank, and asked him about any company—I do not know anybody in the country who can read a balance sheet any better than our president—he would give me his opinion, and say, "you are the general manager of the bank; what do you think of it?" If I said "Do not make the loan," he would say "All right."

Q. You have a pretty good president? I am just wondering why you have a president; why don't you run the whole show yourself. You do not need a board.—A. You instanced a loan to a company in which the president was interested. In other cases I need his advice, and better advice could not be had.

Mr. Geary: Probably the president would be a good general manager too.

By Mr. Geary:

Q. Some of your directors are fairly ubiquitous. Are they able to attend to all the jobs they have.—A. I think that the average time of one of these board meetings, in the ordinary way, probably is half an hour, or an hour, sometimes less, and in that time the opinion of men can be readily obtained. I should think they had time to carry on their duties as directors in the way they should.

Q. They do attend your meetings?—A. They do, yes. If they did not, the shareholders would know about it, because they get a list of the attendance.

The Chairman: Sir Charles Gordon is here, Mr. Power, if you would like to examine him, and Mr. Wilson of the Royal Bank is here. I think Mr. Wilson would like to make a statement on this matter.

Mr. Power: Perhaps I had better ask Sir Charles Gordon some questions.

Sir Charles B. Gordon, G.B.E., called.

By Mr. Power:

Q. I suppose you know that there has been, and there still is, prevalent throughout the country, the opinion that men high in the industrial life of the country should not also be directors of banks. I am saying that as a preliminary statement—

The Chairman: Should not also?

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By Mr. Power:

Q. Should not, at the same time, be directors of banks. I am saying that as a preliminary statement, so that we will understand each other, and you will know what I am driving at when I ask you other questions. I am taking for granted that the brief filed by Mr. Dodds is a brief filed on behalf of yourself and other persons who are connected with industries in Canada, or have you a brief of your own you would like to file?—A. No, I have not a brief. I had communication of the brief filed by Mr. Dodds, at the time he filed it, and I read it over this morning. I agree with almost everything that is in that brief.

Q. You are quite satisfied that it represents your views?—A. I am perfectly satisfied that it is a proper explanation of the question of interlocking directorates.

Q. Do you see anything—I do not want to use the wrong word—reprehensible or improper in four, or five, men like yourself having, through their connections as directors, what almost amounts to a control of what is commonly called the money power in Canada. I put the question to you just as bluntly as it has been put in the House of Commons, and elsewhere, and would much appreciate an answer in the frank way in which I put the question to you.

The CHAIRMAN: Is not the use of the word "reprehensible" objectionable? Could you not use another word?

Mr. POWER: Yes. I think I could substitute the word "objectionable."

Mr. HACKETT: Incongruous.

Mr. POWER: That is not strong enough.

The WITNESS: Speaking for myself, I really never had such a feeling; I have never had such a feeling at all. In every company that I have had to do with, I have made it a practice never to exercise my influence in conjunction with any other director, and I am quite independent in that way. I am in no rings, or cabals, or anything of that description, and never have been. I have always used my influence entirely for the benefit of the company itself, and not in conjunction with anybody else or any other company.

Q. You cannot conceive of any time when the interests—I will come to that later—I want to get your view first of all as to the effect on the country as a whole of this system, whereby a very few men—will you first of all admit my premise that a very few men, through their associations, are practically able to control the monetary policy of Canada?—A. Well, Mr. Power, the presidents of banks, or directors of banks, do not act together in these matters. They represent only their own bank, and attend to the interests of their own bank. They do not direct interest rates or credit. They direct the credits of the customers of their own banks but not all banks in conjunction. They have nothing to say about any other bank.

Q. Just on that point, you have strayed away from the subject, but we will come back to it later. You say they do not direct the interest rates—perhaps I should have put this question to Mr. Dodds—you say bank presidents, or the banks themselves, do not in any way combine to direct interest rates; is that what you mean?—A. Well, we have arrangements about deposits. We pay the same rates, as you know, on deposits.

Q. That arrangement is made through the Bankers' Association?—A. I think it is; I cannot tell you, though. It is a rate on which we all agree, and savings deposits all bear the same interest rate—2½ per cent.

Q. What about the rate on loans?—A. Well, the rates on loans vary. The prevailing rate, of course, is 6 per cent, that is the prevailing rate on commercial loans. Other loans are made at lower rates than that; I have a list here somewhere, if you wish precise figures.

Q. Other loans, for instance, government or municipal loans?—A. Yes.

[Sir Charles B. Gordon]

Q. But no other loans to individuals or individual companies?—A. Yes; sometimes. Where the individual puts up government bonds as collateral, for instance, or something of an equally high grade, he would get a rate lower than 6 per cent.

Q. I put this to you, Sir Charles: Is it not a fact that either through an understanding or an agreement, sanctioned by the Bankers' Association, you cannot, without consultation with the Bankers' Association, loan for commercial purposes at less than 6 per cent—the prevailing rate?—A. Well, I am not very familiar with that, Mr. Power.

Q. I know that. Mr. Chairman, may I put that question to Mr. Ross? Did you follow that question, Mr. Ross?

Mr. Ross: I followed the question, Mr. Power. There is no arrangement—no record of any arrangement—with regard to commercial loans as to what rate shall be charged by the banks.

Q. There was a special rate in regard to loans to brokers?—A. Well, I cannot recall. There may have been an arrangement between the banks, in some particular city. I do not remember anything through the Bankers' Association in that way. It is possible, but I have no recollection of any such arrangement. I think there was, with reference to loans against Dominion government bonds some years ago, that the rate should not be less than 5 per cent, and so forth; but there is no general arrangements; so far as I am aware, there never has been a general arrangement, with regard to the rate on commercial loans.

Q. To come back to where we started, Sir Charles. The statement has been made, and I do not know that I did not also make it myself in the House; but I am reading now from Hansard, a speech made by Mr. Irvine, on March 1, 1934, at page 1156. Mr. Irvine is speaking of the Bank of Montreal and the Royal Trust Company, and he says this: "These two companies should be considered as one, there being 14 directors common to both, including the president, Sir Charles Blair Gordon." As a matter of fact there are 15 directors common to both. Continuing, Mr. Irvine said: "The capital and reserve of the Bank of Montreal is $76,000,000 and, of the Royal Trust Company $5,750,000. The combined assets of the two organizations total $1,324,000,000. The combined boards total 45 members who hold 217 directorships in 135 other companies." Now, I put it to you, do you think it is in the general interest of the country that the boards of these two companies should hold so many directorships, and, through those directorships, have a word to say in the policy of so many companies throughout the country?—A. Well, I cannot be more emphatic than Mr. Dodds was about the association of the Bank and the Trust Company. I am the president of both, as you know; but they are run entirely separately. The Bank of Montreal, as a bank, has no interest in the Royal Trust Company, and has no shares in the Royal Trust Company.

Q. Leaving that aside for the moment, Sir Charles—

The CHAIRMAN: He is first answering one part of your question.

By Mr. Power:

Q. Go ahead.—A. It is true that a lot of the directors are the same, but there are a number of other directors, you did not read out their names. There are fifteen directors of the Bank of Montreal who are directors of the Royal Trust Company, but there are eight directors of the Royal Trust Company who are not directors of the Bank of Montreal. Now, if we have a vacancy on the Royal Trust Company we try to get a director on that Board who might afterwards become a director of the bank; we do that sometimes.

Q. Why, what reason would you have for that?—A. Oh, just because it is a stepping stone to the bank. Sometimes we do not have a vacancy on the bank directorate, but still we like to obtain someone who looks promising, you see.

Mr. JACOBS: You keep him in cold storage.

Mr. POWER: You hold him "in trust."

The WITNESS: I just want to say, Mr. Power, in selecting directors for the bank, I am very careful to try to get not the richest man, or anything of that kind, but an all round business man—he does not need to be a commercial or industrial business man—a doctor or a lawyer would suit the purpose.

By Mr. Power:

Q. There are very few doctors on your Board and not many lawyers.—A. well, there are some lawyers. We have four, General Mewburn, Mr. Meredith, Mr. Beatty and Mr. Tilley.

Q. You have four lawyers on your board.—A. Yes. But that is so, Mr. Power—we exercise the very greatest care, and we do not put any of them on because a friend of his wants him put on.

Q. I know, but it would require considerable pull, and a certain amount of very intensive lobbying, to become a director of the Bank of Montreal, I would say.—A. No, there is no lobbying at all.

Q. No lobbying?—A. No, because I know if I asked for opinions from five or six of my directors I would have five or six fights on my hands.

Q. But do you never really feel that you have a very great responsibility on your shoulders, on account of your association with different companies and through them, at least, a certain control over the financial destiny of the whole of the Dominion of Canada?—A. Well fortunately, Mr. Power, most of the big companies with which I have anything to do are not borrowers at all from the bank. The biggest one I have to do with, as you know, is Dominion Textile Company, and I have been president of that for twenty-nine years. That company does not owe the Bank of Montreal one cent. I mean, we might owe them at times a few thousand dollars, but I do not think we owe them one cent today. Once in a while we will borrow a little, just to carry us over to the end of the month, as is the case with most of the companies in which I am concerned.

The CHAIRMAN: What I think Mr. Power is driving at is this, Sir Charles: It is alleged, and has been alleged, ever since I have been a member of parliament, that, because of the fact that so few men control the destiny of so many companies—including banks—it is an evil to the country because they have control of the financial credit system. That is the crux of the situation, and that is a real problem with which we, as public men, have to deal.

Mr. POWER: And I am asking Sir Charles frankly to give us his opinion.

The WITNESS: That is what I am trying to do, Mr. Chairman. All these companies with which I am connected are not dependent on the bank for their credits at all, because they are not borrowers from the bank to any extent.

The CHAIRMAN: Well, that is an important answer, there is no doubt about that.

Mr. POWER: But that does not answer the whole of my questions.

The WITNESS: As I say, of all the companies with which I am connected none are big borrowers, and, when I say that, I do not mean they are small. I could name them over to you if you like—a few of them—and they are not borrowers at all.

By Mr. Power:

Q. I shall probably ask you about that in a moment. That is not what I am getting at—it is the influence on the board and the fact of practically so few men having such enormous resources at your disposal—is that good, or is it bad for the country?—A. If we act in a proper way, I think it would be good.

[Sir Charles B. Gordon]

Q. Now, if you did use them in a proper way—what I am trying to get at is could this power be abused?—A. Yes.

Q. Without reference to you, or to any other of the gentlemen who are now in the position you occupy?—A. I think it could.

Q. You think it could?—A. Yes. I will tell you what I have in mind. For instance, supposing there were two or three companies anxious to borrow money from the Bank of Montreal do you suggest that I might use my influence against them—say two or three cotton or textile companies?

Q. Quite.—A. And would not give them all the money they wanted?

Q. Yes.—A. Well, I could not do that, not with a decent board of directors; they would not permit it; they would soon see through that business and get rid of me, and if I realized anybody on my board was doing anything of the kind I would get rid of him.

Q. Well now, would it be possible—and I think perhaps you will admit that it would be possible—for a certain number of, let us call them financial adventurers, to get into a position, somewhat like that which you occupy, of being able to control credit throughout the country to their own advantage and to the general disadvantage of the country; is that a conceivable possibility?—A. Well, they would have to get control of a large block of the stock of the bank—to secure that control by buying stock themselves or through their friends—and in that way, that is, by owning the shares of the bank, then, of course, they could elect their own board. But then they might lose a great many of their deposits. That would be the real result, I think.

By the Chairman:

Q. But you admit the situation, which Mr. Power has visualized, to be conceivable?—A. It is conceivable, yes.

Q. But not probable, as I understand it?—A. But what would happen if people, such as you describe, got control of the Bank of Montreal? Don't you think the public would lose faith and take away their deposits?

By Mr. Power:

Q. You have heard of the National City Bank? I do not want to be treading on your toes, but I think you are a director of the National City Company?—A. No.

Q. You were a director of the National City Company?—A. No, I was on the advisory board of the National City Company, until 1927.

Q. Well, when I now mention the National City Bank I am not treading on your toes, then?—A. No.

Q. There was such an institution in the United States, and there were gentlemen called Wiggins and Mitchell connected with it?—A. It is a very large bank in the United States, to-day, I think the second largest, and I do not mind telling you it is our particular correspondent in New York and has been, for many years, but there was no wrongdoing in the National City Bank until, just recently—until Mitchell got into this profit sharing business.

Q. If that could happen in the United States could it not happen here?—A. No, I do not think so and I will tell you why I say so. You suggested that the Royal Trust Company is an adjunct of the Bank of Montreal. It is not an adjunct in the way that the National City Company was of the National City Bank. The National City Company was a speculative company—a company putting out issues. The Royal Trust Company never puts out issues of any description. It does not make any money out of that kind of thing. The National City Bank used the National City Company, and the Chase National Bank used the Chase Securities, and the First National used the First National

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Securities—and every bank in New York was in the speculative business—and you know what happened. And we were pressed time and again—not just since I have been president, but during Sir Vincent Meredith's time; he was pressed time and again—by people to have an adjunct to the bank something like what seemed to be the fashion in New York, where they were making all kinds of money out of the notion. We simply would not do it.

Q. I would be very glad, Sir Charles—and I think most of the members of the committee would—if you would elaborate a little more on that statement and show quite clearly what is the distinction between the Trust Companies which were adjuncts to the American Banks and the Trust Companies which are associated with the Canadian banks, showing us the nature of the latter connection. I think it would be very important, do you not, Mr. Chairman? Do you not agree with me, Mr. Chairman, that it would be of some importance to the public generally if somebody would file a brief on this; it might be worth while.

The CHAIRMAN: I agree. I think the public would get a good deal of information and it might remove a good deal of false impression, if that were done. I think I understand the situation.

Mr. POWER: Frankly I do not for one.

The WITNESS: Well, Mr. Power, you asked Mr. Dodds about the Royal Trust Company and I will tell you a little more about it. It is a Trust Company, in every sense of the word. It is not a trading company; it is not an investment banking company; it is not a company used to buy and sell stocks, or to make floatations. It is simply doing an executor's business—a trustee business for its clients. They have nothing to do with the public's money, except in administering the estates of clients, in a private capacity.

By Mr. Jacobs:

Q. Do they advance money on stocks?—A. They advance their clients money on stocks. For instance, if you came to the bank, and wanted $100,000 put out for you for two, or three months, or even six months—if you came into the bank and wanted us to do that we would not want to do it—but you might go to the Trust Company and they might do it; they could do it off their own bat. We do not interfere with them, even I would not know about such a transaction. It would be reported after it was completed.

By Mr. Power:

Q. Would there be much of that kind of business?—A. No, we do not do very much of it, but we have to do some of it.

Q. I would imagine anyone who had $100,000 to let out could go directly to a broker. I think Mr. Wilson told us that the other day.—A. Mr. Power, you know we are agents for a lot of people, we are administering estates for people, for instance, for the Montreal General Hospital, the Royal Victoria Hospital and McGill University. They all have funds, at times, which they wish to invest temporarily and not let lie in a bank. A bank would not give them any interest so they move the funds to a Trust Company and they say we will give you this money to put out for four months at 4 per cent—and the Trust Company charges them a commission for doing it—but they are not responsible for the loans. We will say it is the Montreal General Hospital and they wish to loan out $50,000, the Trust Company tell the Montreal General Hospital the kind of security they are going to take and they say "Are you satisfied" and they say "yes," and then the Trust Company say. "All right we will look after it for you and charge you a commission." That is the kind of business trust companies do. Now that is entirely different to those trust companies—so called trust companies—in the United States. They are not trust companies at all, in the real sense of the term.

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Q. How would you describe them then?—A. Well, they were back doors for their banks, that is what they were. They were there incorporated to do the things which the banks themselves could not do.

By Mr. Hackett:

Q. They were speculators?—A. Yes.

By Mr. Power:

Q. They were a little more than investment bankers?—A. Oh, they were just—

The CHAIRMAN: "Racketeers."

By Mr. Power:

Q. They issued securities, did they not?—A. Yes, they became the agents, they made issues. For instance take South American issues, there was not a State in South America after which the banks in New York were not running to try to lend money. Take the Argentine, Brazil, Equador, Colombia, every state,—Chile.

Q. How were loans to those South American republics handled in Canada, by whom?—A. Well, a good many of them were handled direct through people in the United States who brought them out, like the Chase Bank and the National City Company, the Chase Securities which was the name of the Chase subsidiary; the National City Bank; the Irving National Bank, every single bank almost.

Q. When those securities came to Canada through whom were they handled here?—A. They were handled by what were called investment banking houses and brokers.

Q. But not through any of the trust companies?—A. The Royal Trust Company would no more think of touching one of those things than of flying over the moon.

By Mr. Jacobs:

Q. Although the men at the head of them in New York were men of the highest integrity.—A. Yes they were—that is a funny thing. But that became the fashion in New York, to establish one of these companies which bore the name of the bank, as a rule, except that it just said this was the Irving Trust Company, not the Irving Bank; the National City Bank was the National City Company, Chase Securities and so on.

By Mr. Power:

Q. What is to prevent the Royal Trust Company, or any other trust company, affiliated with a bank, from doing the same thing as Chase Securities, or the National City Company, or any of these other companies—Is there anything to prevent that?—A. Well, I do not know whether their charters allow them to or not, I cannot say, Mr. Power. I imagine they could not but I do not know.

Mr. HACKETT: They are under the inspection of the Department of Finance.

Mr. JACOBS: So were the companies in New York, somebody inspected them.

The CHAIRMAN: Is that quite true of the Provincial Chartered trust companies? I do not think our Finance Department has any jurisdiction at all over such companies.

Mr. ROBINSON: The Provincial governments have.

[Sir Charles B. Gordon]

By Mr. Power:

Q. So that really the only thing that prevents anything occurring such as occurred in New York—that is, financial racketeering—is that hitherto our bankers, and their associates, have been men of high character?—A. Yes, and I do not know of any case where any bank ever carried on the flotation or selling of shares, that is to say, through a company associated with them, I do not remember any instance.

Q. Nor do I remember any such case. Of course, I would not know anyway. Although trust companies are authorized to carry on the ordinary business they are copies, largely, of the American trust companies.

Mr. JACOBS: Entirely so.

The CHAIRMAN: Well, the federal chartered trust companies are under the control of the superintendent of insurance and their functions are defined by statute and they are open to inspection. That is not true of provincial chartered trust companies. I do not know what the law is, in respect to them.

By Mr. Power:

Q. Do you know, Sir Charles, if there is anything that prevents mixing up the work of an ordinary trust company with that of a security company, or with a company dealing in securities? That is a question of law I know, but do you know of anything?—A. No, I do not know anything about it, Mr. Power. All I know is that so far as the Royal Trust Company is concerned we have never done anything of that kind.

Q. You have never done it?—A. No.

Q. Now, may I ask you how a bank director is chosen? I know you will tell me by the shareholders, but let us admit frankly that that is not quite the case.—A. Well, there is no definite way.

The CHAIRMAN: Is he not chosen by the other remaining directors?

Mr. POWER: I want to get to the bottom of that. Unquestionably they are so chosen. I do not believe they are chosen by the shareholders.

The CHAIRMAN: No, neither do I.

By Mr. Power:

Q. Will you agree with that statement?—A. Oh no.

Q. They are not chosen by the shareholders?—A. Their choice is confirmed by the shareholders only at the annual meeting, though any shareholders could make objection to the slate as put forward at the annual meeting, and, if the directors knew that such a thing was going to occur, I do not think they would put it forward.

Q. It is very like securing admission to a club—the directors see to it that they pick a man who is not likely to be blackballed before they submit him to the general meeting—is not that a fair statement?—A. If he were not a desirable director, I think he would be blackballed.

Q. By the shareholders?—A. No, first by the other directors.

Q. By the other directors first?—A. Yes.

Q. Have you ever known of a case in your experience in the bank, where a man was selected by the board and was afterwards rejected by the shareholders? —A. No. I have known of cases where the names of men have been proposed to me and I would go and consult some of our directors as to what they thought, and we have decided: "well he is not quite what we want," that is all; and we did not go any further with it.

Q. As a matter of fact, the shareholders have little or nothing to say in the choice of directors, is that fair?—A. How could they, Mr. Power. They come to an annual meeting and the shareholders are nearly all represented by proxy,

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and those that are in the room are not going to make any objections, at the last moment, because they know those proxies are standing there and they are going to get voted down anyhow, if they propose another slate.

The CHAIRMAN: There is no doubt that is the practical way it is done, the vacancies on boards are filled by the remaining directors and confirmed at the shareholders meeting. They go through a form of election.

Mr. ROBINSON: It has to be unanimous, has it not?

The CHAIRMAN: I suppose the procedure is governed by some by-law.

By Mr. Power:

Q. There has never been a case, to your knowledge, where the choice of the directors has not been approved?—A. There have been cases where, possibly, directors who have been found undesirable have been asked for their resignations and dropped.

Q. That is, by the board.—A. By the president of the board, yes.

Q. The board did not take the trouble to place their names on the slate?—A. No no, I mean when they have actually been on the board and something has happened, during their term as a director, that the other directors did not care about, or did not agree with, and they asked them for their resignations. And that is the safeguard in it, Mr. Power. If you get a good board, they do not want any bad ones amongst them, they do not like to see them around.

By Mr. Irvine:

Q. What is a bad one, sir?—A. A bad one?

Q. Yes.—A. Well, someone that does something wrong.

Q. Well, what is something wrong?

By Mr. Spencer:

Q. If a director makes a bad failure in his business would that be considered wrong?—A. He would have to resign at once, of course.

By Mr. Power:

Q. It has been pointed out to me, Sir Charles, by a member of the committee, that on occasion you choose as a director the ordinary shareholder in commercial companies—it happens more often perhaps in mining companies—but he receives proxies from four or five different factions who each have a slate which they wish to present to the shareholders meeting. Now does that ever happen in banks?—A. It never happened in the Bank of Montreal, to my knowledge.

Q. As far as you know, there has never been any fight for control in the Bank of Montreal?—A. Oh no.

Q. You are a happy family.—A. None of our directors are very large shareholders in the Bank of Montreal.

Q. I was just coming to that.—A. We have others outside who are far larger shareholders than the directors.

Q. I was coming to that. The holding of a number of shares is not an important factor—.—A. No.

Q. In the appointment of a man as a bank director?—A. One hundred shares is the qualification.

Q. One hundred shares is sufficient?—A. Yes, that is the minimum requirement.

Q. Now, have you a number of directors who would hold only the minimum?—A. No, I think all have a little more than the minimum. I think perhaps one or two of them have the minimum, but most of them have a substantial holding.

[Sir Charles B. Gordon]

Q. Is the board composed of, twenty-five members I think it is—.—A. Eighteen now.

Q. Would it have control over the shares?—A. Oh no, not within a mile of it. You see there are 360,000 shares.

Q. It is given by averages I think.

By Mr. Geary:

Q. It is open to shareholders to make themselves felt in the meeting, if they want to try to drum up proxies, or voice their views in one way or another, is it not?—A. It would have to be an organized movement, on their part, sometime before the annual meeting, so that they would not give their proxies to the same crowd that is in control.

Q. That is the point I make, that really the shareholder is not such a cypher as some people think.—A. Oh, no. He does not need to give up his proxy at all, and he does not need to sign it for the slate that is put up by the board.

By Mr. Power:

Q. But practically it is almost impossible for the shareholders to make their views felt, at a meeting of shareholders, is it not?—A. Well, it is never desirable, I do not think, Mr. Power, if the bank is being conducted properly.

Q. Why is it not desirable? We are wandering far from democracy now. I suppose a joint stock company is, in a certain sense, a democracy. Why is it not desirable that the shareholders should be consulted and should have their views aired?—A. I do not mean that. I mean it would not be desirable for them to withhold their support from a board in which they had confidence.

Q. Well, naturally they would not withhold it from a board in which they had confidence.—A. The only other thing then that they can do—

Q. There is very little they can do otherwise, without organization.—A. They must organize.

Q. And it is not likely that they would organize, unless they had a reason for it—a specific reason for it— that is fair enough. Owing to the nature of the set-up they cannot find a reason whether that reason exists or not, until the bank goes broke, is not that fair enough?—A. Oh no.

Q. Or the bank is in difficulties.—A. Oh no. If they found that the bank was being mismanaged they would call a meeting immediately.

Q. Do they get enough information to know whether the bank is being mismanaged or not?—A. Well, they get the bank's statement every month, whether they look at it or not, I do not know.

The CHAIRMAN: In practice what would happen would be this, that the shareholders would get alarmed at the management of the bank and would go and see the directors and put them on their guard and then it would be up to them; and they could also go and see the inspector general of banks. Shareholders are not as powerless as people perhaps imagine.

Mr. GEARY: That is the point I am making, the shareholder is surely not a cypher because he has confidence in the administration.

Mr. POWER: He is bound to have confidence because he knows no reason why he should not.

The CHAIRMAN: That may be true.

Mr. IRVINE: When you talk about "he," who is he?

The CHAIRMAN: A shareholder.

Mr. IRVINE: There are 300,000 scattered all over the world.

The CHAIRMAN: There are 360,000 shares.

Mr. IRVINE: Oh yes.

[Sir Charles B. Gordon]

Mr. POWER: In the report of the Royal Commission on Banking and Currency, page 101, Distribution of Bank Shares, December 31, 1932 (submitted by Canadian Bankers' Association), number of shares issued, 1,445,000; number of shareholders, 48,271; average number of shares held, 29·9; number of shares held by directors, 54,883.

Mr. HACKETT: About 7 per cent of the total.

Mr. POWER: That is to say, the directors hold about 7 per cent, as Mr. Hackett says.

The WITNESS: Mr. Power, you have been asking me a lot of questions, will you let me ask you one?

Mr. POWER: I do not mind.

The WITNESS: Well, in reviewing the record of the Canadian banks during this period of stress that we have gone through, and the fact that we serve such a tremendous country and sparse population, do you not think the service of these banks has been something wonderful in this country during the last few years?

By Mr. Power:

Q. Do you mean from the standpoint of their stability?—A. Their stability, yes. Then further, Mr. Power, if you had lived in the United States, in any State in the union, for some little period you could not have got a dollar, because in many of the States the banks were shut for months, in fact, 5,000 of them are shut yet.

Q. I had marked that for questioning in Mr. Dodds statement. If you will permit me to reply to your question by another, at page 472 of Mr. Dodds statement he says:

> The chartered banks are the depositaries of savings of the public, totalling $1,335,000,000 in Canada. During what has been described as the greatest depression the world has ever experienced, we have seen below the Border literally thousands of banks fail, with colossal losses to depositors, and finally the whole United States banking system lapsed into a state of suspended animation. During that unprecedented period not one Canadian bank closed its doors; their 3,900 branches opened for busi-as usual every day, and not a single depositor experienced a moment's delay in withdrawing any portion or all of his balance.

Now, will you tell me how could the banks have failed in Canada, how could the banks have failed under the system which we put into force whereby we allowed them to value their securities at a certain value?—A. The bank's securities have not been valued at anything less than they were worth, to my knowledge.

Q. They were permitted to do so. May I point out that there is an order in council permitting them to do so.

By the Chairman:

Q. Did your bank take advantage of that order in council?

Mr. POWER: I am not asking the question.

The CHAIRMAN: I am asking it.

The WITNESS: I do not think so, Mr. Chairman. We did not take advantage of being permitted to value our securities at a higher rate than they were worth.

Mr. POWER: I would like some banker to explain to me how it was possible, during this period of depression, for any one of the banks to have failed if the government had wished to keep it up.

The CHAIRMAN: We shall resume at 8 o'clock and conclude this branch of our inquiry.

The Committee adjourned at 6 p.m., to resume at 8 p.m.

EVENING SITTING

On resuming at 8 p.m.

The CHAIRMAN: Mr. Power, have you any further questions to ask Sir Charles Gordon?

Mr. POWER: I have just one or two more questions, Mr. Chairman.

Sir CHARLES B. GORDON, G.B.E., examination resumed.

By Mr. Power:

Q. Sir Charles, just before adjournment I was asking you how a bank could possibly have failed during this time of crisis through which we have been passing; that is referring to the statement made by Mr. Dodds and to a statement which you have made in which you give considerable credit to the banks for their stability as compared with that of the banks in the republic to the south of us, and arising out of that statement of yours I asked you, how could any of our Canadian banks have failed during this period of depression?—A. Well, my answer to that is, that the reason they could not fail was, or rather you say the reason they could not fail was that they had the right to value their securities under an Order in Council—

Q. That is one reason, and the other was the operation of the Finance Act. —A. Yes, I was going to mention that. As far as I can remember, none of them took any great advantage of the Finance Act during that period.

Q. I am not even alleging that. I am asking you if, under the circumstances, it would have been possible for any bank to have failed?—A. I think they could have failed, if they had not been in a liquid position.

Q. Do you not think that, in the first place, that for self protection alone all the other banks would naturally have come to the rescue of any bank that was in difficulties during this period?

Mr. HACKETT: Just like one member of parliament helping another member home.

Mr. DODDS: Why don't you ask a practical banker?

Mr. POWER: I hope there is no intimation that the president of the Bank of Montreal is not a practical banker. Never mind, I will ask the question from what Mr. Dodds has been kind enough to call a practical banker.

By Mr. Power:

Q. Well then, I will ask you this question, and perhaps I will get the same reply: You are president of the Royal Trust Company and at the same time president of the Bank of Montreal?—A. Yes.

Q. You are not in any way ashamed of the connection between the two, I take it; on the contrary you are quite proud of it?—A. Yes, I am.

Q. Now, would there be any objection to making provision in the Bank Act, that when two institutions are so closely affiliated, let us say connected, or use any word you like which means the same thing, as are the Bank of Montreal and the Royal Trust Company, that there should be some kind of report made with respect to the affiliated or connected company as there is with respect to a controlled company?—A. Well, Mr. Power, I think that you know the president of the Bank of Montreal has also been president of the Royal Trust Company at all times since it started, and if any complaints had been lodged in regard to that fact some action would have been taken by either the bank or the trust company to discontinue it; but instead of complaints it has always worked in the most harmonious way. The people who have got their money in

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the trust company, and estates that are being managed by the trust company, are desirous of having the president of the Bank of Montreal at the head of it because they think that through his experience in the bank and his connections that he is valuable in connection with their investments and taking an interest in their affairs. It does not bring any particular business to the bank at all, but, there is a close connection there, and the experience and ability to supervise investments for them.

Q. Do you not think it would help to satisfy a certain public opinion if provision were made in the Bank Act, that in a case such as that of the Bank of Montreal and the Royal Trust Company the Bank of Montreal would make a report on the operations of the Royal Trust Company as it does of the companies which it actually controls? Do you see any objection, from a banker's standpoint, or from any other standpoint, to such a provision being inserted in the Bank Act?—A. I do not see any occasion for it. Undoubtedly there is some demand from some quarter that such an amendment should be enacted. I do not think it needs to be done by statutory enactment. I think that if there are complaints, and if there is anything that can be made better, it can be done from within just as well as by statutory enactment.

Q. After all, the banks need to enjoy the public confidence?—A. Yes.

Q. And you do not think you would maintain that public confidence if such provision were put in the Act?—A. I do not think so, Mr. Power.

Q. You do not think so?—A. No.

Mr. WHITE (*Mount Royal*): How could you enforce if the Bank of Montreal does not own the Royal Trust Company?

Mr. POWER: I see your point, Mr. White.

Mr. WHITE (*Mount Royal*): You might force the Royal Trust Company, or require the Royal Trust Company, to make a report or a return.

Mr. POWER: No, I think perhaps we could get around it in this way: We could legislate that companies wherein there was a duplication of directors with the banks to the extent of say one-third of the directors, or something of that kind, would have to make a special report. I will admit that the Act would have to be drawn with considerable care, so that there would be no loophole.

The CHAIRMAN: Mr. Power, would there not be a constitutional difficulty in connection with those trust companies that are today under provincial jurisdiction?

Mr. POWER: The point is, I think, well taken, but after all we are now legislating on banking, and if it could be shown that a certain proportion of the directors of a bank were also directors of some other company or companies, could we not, through our legislation, force that bank to make a report of those interlocked directorates.

The CHAIRMAN: We could force the bank to do anything for that matter, but in my judgment, this is what would happen: A substantial number of the directors of the Bank of Montreal would probably resign from the directorate of the Royal Trust Company.

Mr. DODDS: How could we get at the Royal Trust Company books? We coud not see the inside of them.

Mr. POWER: I suppose that is so.

The CHAIRMAN: As regards Dominion companies I think we could legislate against them and make them make the returns themselves.

Mr. POWER: It might have the effect, as you point out, Mr. Chairman, of a number of the directors resigning.

The CHAIRMAN: That is just a thought that occurs to me.

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Mr. Power: After all, that perhaps would not be a bad thing, from the standpoint of some of us.

The Chairman: It might not.

Mr. Power: I do not know that there is anything else that I have to ask you, Sir Charles.

The Chairman: Any other questions, gentlemen?

By Mr. Jacobs:

Q. Sir Charles, in the whole history of the Bank of Montreal has a farmer ever been elected a director of the bank?—A. A farmer?

Q. A farmer, yes.—A. No, I do not think so as far as I can remember, not in my time. There have not been any farmer directors. I do not know that there are any farmers in the City of Montreal to speak of, are there?

Mr. Dodds: We have a farmer on the board—Senator Pat Burns.

Mr. Jacobs: What does he farm?

Mr. Dodds: He farms a great deal of land.

By Mr. Jacobs:

Q. So that he is the representative of the farmers on the board, but I mean a practical farmer representing an interest which is one of the basic and primary interests of the country; do you not think it would be a good idea for the bank to have a farmer on the board?—A. Well, if you could get one, Mr. Jacobs, who would attend the meetings regularly. Mr. Burns, of course is on the board, but he very seldom attends any meetings.

Q. He very seldom attends?—A. Yes. Unless you could get a farmer who lived somewhere in the vicinity of Montreal and who would come to board meetings.

Q. Yes, but Mr. Burns lives twenty-five hundred miles away from Montreal.—A. Yes. I say there is no use having a farmer who lives a long way off as a member of the board.

Q. Is that why you have Mr. Burns representing the great farming interests?—A. We want to have some director from the Prairies so that if the people out there have grievances they would go to him and he would hand them on to us. In the same way, we have a man from Vancouver.

Q. It does seem to me, as an outsider, that a person representing a basic industry, such as farming, would be of value to the bank and at the same time it would be a compliment to the vocation that he pursues.—A. Yes.

Q. I just leave that with you as a suggestion, and perhaps at your next meeting you will do something about it.

The Chairman: Do you think we ought to legislate on the point.

Mr. Jacobs: Well, sometimes legislation becomes necessary. I do not believe in forcing anyone or anybody on a board to do what they do not want to do but, as I said before, the farmers represent about forty per cent, or fifty per cent, of the people of this entire country, and we had an instance, a few weeks ago, of the concern which they gave to the government when we guaranteed the indebtedness of theirs running into millions of dollars, and I thought that possibly a suggestion from a practical man might be of some use; and as to the suggestion made by Sir Charles Gordon that there are no farmers within shooting distance of Montreal, might I suggest that a gentleman of the Progressive group might be willing in the interval between sessions to join your board. At any rate, it is just a suggestion that occurred to me.

The Chairman: My understanding of their position is, that they have abandoned farming for politics.

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Mr. COOTE: You would be surprised.

Mr. JACOBS: I do not think they have abandoned farming. They will be glad to go back to it when they find that they are defeated in the elections. It is always some place to retire to. Of course, I have no doubt that gentlemen of respectability, and so on, could be found to conform to the rules that are laid down by the chief banks of this country before they enter the sanctum sanctorum.

Mr. COOTE: Do you think they could qualify with the necessary amount of stock, Mr. Jacobs?

Mr. JACOBS: Well, sometimes it could be put in their names, as we have seen to-day that it has been done when they are invited to qualify.

The WITNESS: I will bear that in mind, Mr. Jacobs.

Mr. JACOBS: Thank you, Sir Charles. We have instances in this House where we have seen that the farmers practically control the entire House, that is, so far as vocal ability is concerned, and sometimes we have adopted some of their views, of course with reservations and so on; but they are really at heart not a bad lot. And furthermore, most of the complaints with regard to the banks and the trust companies, and so on, are made by gentlemen who belong to this vocation, and it does seem to me that if we were to open the doors and show them that after all everything is not quite as serious as they preach to the public it might go a long way towards quelling what you might call the feeling that seems to arise from time to time, and particularly at the end of every ten years when the banks are up for a grilling. These are suggestions that I make in good faith, and I have no doubt that the bankers who are here will accept them in the sense in which they are offered, and that possibly soon we may be able to have representatives of our great farming community on these boards to give us the benefit of their valuable advice.

Mr. COOTE: Do not forget to tell them, Mr. Jacobs, what you said in the House a few years ago, that farmers were the only ones we should allow to come here to Canada to become Canadian emigrants.

Mr. JACOBS: Did I say that?

Mr. COOTE: I remember you pointing out, that if Christ were to come to Canada and ask for entry He would be turned back because He was a carpenter and not a farmer. Mr. Chairman, I really did not intend to ask Sir Charles any questions because I think Mr. Power has done a very good job, but, after looking over the list of directors that has been furnished us by the banks I notice that Sir Charles is one of the directors who holds the largest number of directorships, so I would like to ask a very few questions on that point. Also, I might say that the Bank of Montreal—I think it is quite fair to say—has been for years regarded as Canada's leading bank, and it is generally understood that the policy of the Bank of Montreal might be said to set the policy of the banks in Canada generally, to give them guidance at least.

By Mr. Coote:

Q. You were a director of a number of industrial concerns, I think Sir Charles, before you became president of the bank?—A. Yes, sir.

Q. And I wondered if you remembered offhand approximately how many concerns you were directing before you became president of the Bank of Montreal? I do not want to tie you down to any definite number.—A. Oh quite a number. I have been made a director of a number since I became president.

Q. Yes, I was going to ask you that next, how many directorships you have taken since you became president?—A. I do not know.

Q. Would it be quite a number?—A. Yes.

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Q. What reason induces a bank president to take on more directorships?—A. Well, particularly to try to keep the business in the bank and not let it go to other banks.

Q. I notice you are listed here as a director of, I think, thirty companies?—A Thirty?

Q. Yes. Those include the companies of which you are president, and others chairman of the board, and of others you are simply listed as director.—A. Well, nearly every company that I have been in I have been in right from the beginning, and I have never done any trading in their stock, or anything of that kind. I have stayed right with them and I am still with them, in fact, they do not want me to leave.

Q. I would like to ask you next, what work a director does in connection with the majority of these companies that I see you listed with here? How much active interest does he take in these concerns?—A. Well, all these companies must be run by their management principally. All directors can do is to see that they are honestly run. The job, I should think, of a president, or a director, in any of those companies is to see that they are honestly administered and not to tolerate anything that would not be along those lines.

Q. And, I suppose, see that they are efficiently administered?—A. Yes.

Q. I am just trying to find out to what extent directors of these industrial concerns do direct, that is, when they are connected with a large number of them?—A. Well, that is about all they can do, look after the management. I have had occasion, a number of times, where a company got going bad to sit in a good deal with the other directors and try to strengthen the management. I have in mind two or three cases, pretty large companies, where it required careful handling to prevent them from going to pieces, and I think the companies that I have had to do with show that.

Q. Well, would you care to say how many companies a man could really faithfully serve as a director?—A. Oh, I cannot say, but I know that I will never be in as many again. I am trying to get out of companies now instead of into them, but it is harder to get out than it is to get in, I find.

Q. You do not find it difficult then to get in, as you put it?—A. It was not difficult to get in, but it is hard to get out.

Q. And I suppose these companies like to have you a director to get the benefit of your experience, would that be fair?—A. Yes, partly that. It is just like banks who like to get what are known as good men as directors of companies.

Q. Well then, may we take it that you would think that perhaps thirty is about the number of companies that a man could efficiently direct? That is the number I see credited to you.—A. Oh well, there are always some companies where your name is on the Board but you really have not got much to do with the directing because there are more practical directors than I would be in many of those companies.

Q. I cannot think of any more practical man in Canada that could be on the board of any of these except yourself.—A. Oh yes, I mean the management of them, men who would be more active than I would be, because they are more particularly interested in a good many of those companies than I would be. The ones that I am particularly interested in would be not more than perhaps six or eight, you see. I mean, you take the Royal Trust Company, I would not sell a share of their stock, and have not since I have been connected with them.

Q. I think you told us this afternoon you were a member of the advisory board of the National City Company?—A. Yes, at one time. I resigned from that in 1927.

Q. I was wondering if that position would correspond at all to the position of a director?—A. No. The directors in that National City Company were all from New York; they all belonged to the National City Bank of New York

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and the National City Company of New York, which is one and the same concern. But they wanted a board in Canada, and in 1919 they did appoint an advisory board, and the late Lord Shaughnessy was the president of it at that time, or the chairman of the advisory board they called it, and later I became the chairman in 1924; and then when I became president of the bank I resigned from the National City advisory board.

Q. When you became chairman of the board?—A. When I became president of the bank.

Q. I suppose you take an active interest in the Dominion Textile Co?—A. That is my baby, as it were.

Q. I do not know whether the chairman will say that this is a proper question to ask under this heading or not, but I am going to risk the question. It has been stated here, by different bankers, that one way out of this depression would be to get governments to remove a lot of tariff barriers, and I was wondering whether in the dual position which you hold, interested in the Dominion Textile Company and the Bank of Montreal, you would care to risk an opinion as to whether we could safely reduce the tariff on textiles?—A. I believe they reduced it yesterday.

Q. Well, we may have to get a microscope to make it look like a reduction.

The CHAIRMAN: I think you will find it is quite substantial.

By Mr. Coote:

Q. I notice Mr. A. O. Dawson is a director of several textile companies, and I believe he is also a director of the Bank of Montreal?—A. Yes.

Q. And I was wondering if it would be fair to say that the textile industry might be referred to as one industry that the Bank of Montreal is particularly interested in?—A. Oh it is, it has always been heavily interested in the textile business. When I first went to the textile company they owed the Bank of Montreal some five million dollars odd, I think, and it has taken a long time, nearly twenty-nine years, to nurse it along and I feel rather proud about it, because although we have not made big money we have made money steadily for all that time, nearly every year a little, and I think you will admit it is a good thing to have some good companies in the country, don't you think so?

Q. I would like to see everyone of them in just as good a position, Sir Charles. But the fact that you are so well acquainted with that industry does, you know, prompt us to ask for your opinion on that very important problem of whether we could safely reduce these tariffs or not, because bankers often tell us we should, but we naturally wonder whether when it comes down to the industries which they are particularly interested in they would be just as willing to see the tariff on their own particular industry reduced as in others. I am not pressing you on that, Sir Charles, but the statement has been made by the bankers.—A. Well, I am not a high tariff man, Mr. Coote, I can tell you that, and never have been and I do not believe in it. It has led to a great many troubles, especially in the United States; you know that. Of course, we have a big industry here; it is one of the best industries of the Dominion to-day, I think. We have over ten thousand people in the textile industry alone. It is not in a position to stand any heavy cut in the tariff.

Mr. COOTE: I thank you for that answer, Sir Charles.

Hon. Mr. EULER: It occurred to me this afternoon, Mr. Chairman, while Major Power was questioning the witnesses, that with all due respect to him this is more or less a purposeless investigation, for the simple reason that we cannot expect the witnesses to give evidence against themselves. And I say that with all respect to the gentlemen who are giving the evidence. I have no doubt they are giving their evidence in a perfectly straightforward way, but, after all, when we ask these gentlemen who are themselves members of inter-

locking directorates the questions that have been asked this afternoon and this evening, the only answer one could expect is " No ". So that I do not think we will get very far with regard to that.

The CHAIRMAN: Before you leave that, have you any suggestion to make because it is alleged that this is a real evil and I am ready to investigate it.

Hon. Mr. EULER: My thought was this: I do not know whether we can do anything with regard to it, but it does seem to me that if we suspect some grievances, or some disadvantage to the public by reason of interlocking directorates we ought to do something to bring these people here who have complaints as to the existence of these interlocking directorates; they could give their evidence and then these gentlemen could combat that evidence. That, to me, would seem to be the proper procedure, otherwise I could not blame these gentlemen; they are perfectly sincere, and I am perfectly safe in saying that no one here would say that they are accused of doing something that was wrong, they would say they were innocent.

The WITNESS: That is exactly the thought I had. If grievances have arisen through these so-called interlocking directorates there should have been something brought forward along those lines so that we could answer.

Hon. Mr. EULER: I am inclined to agree with you there, Sir Charles.

The WITNESS: Because I give you my word I do not know of any instance where it has worked to the injury of anybody.

Hon. Mr. EULER: The thought that seems to have been in the minds of some members of parliament, and I think in the minds of the public, is because of the fact that a small number of men have complete control over the finance of Canada. That has been denied and I am not going into that any further. However, it does occur to me that if men are on the board of a bank, we will say the Bank of Montreal, which consists of eighteen directors I believe, and let us say that each one of these eighteen gentlemen is also in control of several large businesses which require at times loans from the bank, then might it be possible that the private interest of that director in his own business—and which is much larger than his interest as a shareholder in the bank—would come in conflict with his interests as a director of the bank? Might it not be possible for that man to endeavour to get something from the bank which he otherwise would not get, and so on? Might we not have the practice of what is sometimes called " log-rolling "—" you scratch my back and I'll scratch yours "?—A. That might be possible, Mr. Euler.

Q. I have no desire to be offensive at all, but is there any possibility of something of that sort now going on?—A. Well, I will tell you, Mr. Euler, so far as the Bank of Montreal is concerned—and I think it is the practice of other banks too—in appointing a director no matter how prominent he might be, and how big a business man he might be, if he owed the bank a great deal of money we would not put him on at all. If he owed the bank, or if his concern owed the bank, a great deal of money we would not put him on at all.

Q. Supposing he only owed the bank a great deal of money after he became a director?—A. Well, then, of course, it would be more difficult to deal with the case. We would want to help him out if we could, but we certainly would not favour him.

Q. Would you say, Sir Charles, that there is a possible danger of that sort of thing arising?—A. Well, there may be.

Q. Because the directors of the bank might work together, perhaps not if they were going to see any real harm to the public. At the same time they might bring about a situation which they otherwise would not try to bring about, if their interests were not divided as between their own private affairs and their functions as directors of the bank?—A. I can only speak for the Bank of

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Montreal. There isn't anybody on our board whose business is heavily indebted to the bank either from a personal or business point of view.

Q. I would like it understood that I have no particular reference to the Bank of Montreal. I took that merely as an illustration.—A. I think that would be the general rule with banks, they would be careful about putting on a man that owed the bank a lot of money, even if he had a very good business. I think they would be careful.

Q. I say though, more particularly, after he got on he might be able to get a large loan.—A. You understand, after he is on and you are carrying him along you never like to throw him overboard.

Q. Well now, this perhaps is not a question I should ask at this time, but something was said about bank interest rates, and I understood you to say, or perhaps it was Mr. Dodds, that the regular commercial rate of interest, generally speaking, is 6 per cent?—A. Yes.

Q. For loans. That has existed for many many years, has it not?—A. Yes, it was never put up. During the war when rates were running 7, 8 and 9 per cent we never raised it above 6 per cent, not since the war or in boom time.

Q. It has been in existence for thirty or forty years, that has been the normal rate, has it not?—A. I cannot remember back more than about fifteen or twenty years, and that has been the prevailing rate all the time I can remember.

Q. I don't want to press the question again that Major Power asked this afternoon, with regard to the statement that that rate was the result of an agreement by the bankers through the Bankers' Association. I am not going to question what Mr. Ross said in reply to that, although I have been given to understand from very good authority that that was fixed by the Bankers' Association. If it was, I would submit, Mr. Chairman, that that comes very close to being a combine. And just finally I would like to say this—Mr. Wilson says no, and I am quite willing to accept his statement—I would like to ask this one question following up what I said a moment ago, that the rate of 6 per cent has existed for many years and is still existing: in face of the fact that last year the banks reduced the rate of interest on savings from 3 per cent to 2½ per cent, why has the rate to the borrowing public not been decreased by a corresponding amount?—A. Well, the principal reason is that the banks are pretty hard pressed to make their charges and make their dividends. You know we have decreased our dividends from 14 per cent to 8 per cent. We have also decreased expenses in every direction, and we have had a lot of bad debts through these bad times. They have to be provided for.

Q. You have a lot of bad debts; you are like everybody else?—A. We have had a lot of bad debts, and they are not over yet.

By the Chairman:

Q. Your liabilities have not shrunk?—A. No, our liabilities have not shrunk. They never do. It would be pretty difficult for us; and then of course, we pay—I have a list here—where we pay so much out for interest, I mean on savings. We pay so much for our money. We can't afford to reduce interest. It is like manufacturing costs.

By Hon. Mr. Euler:

Q. You are paying only 2½ per cent on savings deposits?—A. I know, but that is not all.

Q. You always have that, relatively. I would maintain that the banks are one-half of one per cent better off than they used to be?—A. But we are paying—

Q. Why has that not been passed on to the public? That is the question I desire to ask

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Mr. Dodds: It is reduced on municipal and farmers' rates.

Mr. Euler: But not to the ordinary borrower.

Mr. Vallance: What about the farmer in western Canada?

Mr. Euler: You are going to get yours reduced to 7 per cent in western Canada, so they can't charge 8 or 9 per cent. I have an answer to that, but I will admit, Mr. Chairman, that that answer that has been given, with all due respect to Sir Charles, is not entirely satisfactory.

The Chairman: Let him answer, and he will answer it. He will give you his reason.

The Witness: We have so little money on which we are not paying interest. We have only $97,000,000 on which we are not paying interest. We have to keep on hand—we always have on hand, or we had on hand when this statement was prepared $112,000,000 reserve. That money must be kept on hand—gold, subsidiary coin, Dominion notes, notes of other banks, deposits, part of our reserve deposit in New York—a very small amount there now—cheques on other banks and bank balances, amounting to $112,000,000. So that wipes out the free money.

Q. Would you say the bank would have been seriously embarrassed if the rate of interest on savings had not been reduced from 3 per cent to $2\frac{1}{2}$ per cent?—A. Yes. Our savings in the Bank of Montreal, when this statement was made out just a few days ago, were $396,000,000 on which we were paying $2\frac{1}{2}$ per cent. That is reduced one-half per cent. It used to be 3. But the trouble is, that is only part of our expense. We have nearly six hundred branches to maintain all over this country, and when you add that cost to the $2\frac{1}{2}$ per cent, the expense of that all makes up our overhead cost.

Q. I suppose the branches are not maintained as philanthropic enterprises?

Mr. Dodds: More than half are carried at a loss to-day.

The Witness: There are a number that do not pay at all, Mr. Dodds knows that.

Hon. Mr. Euler: Branches were established for a purpose surely?

Mr. Dodds: They lost money, however.

Hon. Mr. Euler: I don't want to get into an argument with Mr. Dodds, but as a matter of business, men generally do not go into an extension of business unless they have some hope of making money or getting an advantage out of it in some way.

Mr. Dodds: Just a hope.

The Chairman: They owe a duty to the country, with the franchise they have, to cover the country. There is no doubt about that. I suppose it may be a question of the method of accounting.

Hon. Mr. Euler: I am afraid you are now an advocate for the banks.

The Chairman: No, I am not. I am trying to help you out.

Hon. Mr. Euler: I am quite willing to receive any explanation of why the public do not get a corresponding reduction in the interest rate when they borrow from the bank, corresponding to the lesser amount the banks are now paying to their savings depositors.

By Mr. White (Mount Royal):

Q. Sir Charles, you said that the Bank of Montreal had reduced its dividend in recent years from 14 to 8 per cent?—A. Yes.

Q. Is it not a fact that the Bank of Montreal, during the last twelve months, had paid less than 4 per cent to its shareholders upon the shareholders' capital in the bank?—A. Yes. I will tell you what happened. During the last ten years—I made an analysis of this just lately—half of our stock has changed

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hands, and the average price that was paid for it by the people who now hold it was over 200. In the last twenty years our whole stock has changed hands, either by death and division up into estates or for some one reason or another, and the dividend that we are now paying, that is 8 per cent, does not give the holders that bought our stock more than about $3\frac{3}{4}$ per cent on their money.

Mr. DODDS: They have double liability, too.

The WITNESS: And double liability besides. We are in a very different position from banks in New York, or Great Britain. We are performing a double duty here. We are the savings banks in this country, and we are also the commercial banks in this country, and we are performing services all over the country. There is not a little town in the country that has not got the services of a good bank to-day, because the banks are all good. It is very expensive keeping it up, especially when you pay, as I show you we are paying, interest on nearly all the money we are using; whereas these banks in the United States, they get tremendous free balances, and even if they loaned their money out at one or two per cent there, make far more money than we are, because they have so much free money. I will just give you an instance of that. I think I have it here. The London banks—their deposits cost them only about one per cent. As regards the New York banks, four-fifths of their money is free. On one-fifth of it they are paying only a very small rate of interest. But on four-fifths of our money we are paying 2·37 per cent.

By Hon. Mr. Euler:

Q. Because it is in savings rather than in a current account?—A. Yes. We have very little of what we call free money. We have very little demand money, and we are paying interest upon four-fifths of the money we are using in our business. We are paying 2·37 per cent, in the case of the Bank of Montreal.

By Mr. Coote:

Q. How many banks have been closed in Canada in the last three years, would you think—that is, branch banks, branch offices?—A. Oh, I could not say.

Mr. DODDS: We will get that for you.

Mr. COOTE: I thought you might happen to have that.

The WITNESS: I have not got it here.

By Mr. Geary:

Q. I was going to ask Sir Charles a question or two. Would you take it from me, Sir Charles, that it is shown that the total number of bank shareholders divided among ten banks, including Barclay's, is 48,271; that 12,153 of these are domiciled out of Canada, so that there are in Canada 36,118 shareholders of all the banks. I assume that includes Barclay's as well as the other nine. Then did I understand you to say that in the case of your bank, at all events, the number of shares held by the directors themselves is not preponderating?—A. It is very small.

Q. It is comparatively small in quantity?—A. Yes.

Q. You do hold shareholders' meetings occasionally, do you not?—A. Yes.

Q. Once a year?—A. Once a year.

Q. And notices are sent out to each and every shareholder, I take it, for that meeting?—A. Yes.

Q. And do you send with that notice a proxy, a blank proxy, to be filled in, naming say yourself and two or three others as proxies?—A. Yes, we send a proxy with the notice.

Q. Asking for its return?—A. Yes.

Q. And a great many of them come back to you, I suppose?—A. Oh, yes, we get quite a large number.

[Sir Charles B. Gordon]

Q. Then you send out to each of your shareholders a list of the shareholders, do you not? At least, some banks do?—A. I think that goes out after the annual meeting.

Q. At all events, it is available to a shareholder?—A. Yes.

Q. It may be very late; he may get last year's, but probably it is available as of the time of the meeting, is it?—A. Printed lists are on the table there.

Q. Then is there any reason why any shareholder should not appoint somebody other than those named in your official proxy, as his proxy at that meeting?—A. No reason.

Q. It is quite possible for anybody who desires to advance some proposition opposed to the board's report, to circularize or attempt to get proxies as best he can?—A. I should think the natural way to do, if the shareholder was not satisfied with the management of the bank, or not satisfied with the slate that he knows is going to be voted on, would be for him to go to the meeting or go and see some of the directors, or go to the meeting and raise objections, so that it will become public.

Q. That is one avenue of approach that is open to him, and then the one you have mentioned. When you go to the meeting, is it quite free and open for discussion?—A. Yes.

Q. A shareholder may say what he likes?—A. Since I have been president, I have not heard of anything of that kind, but there used to be.

Q. Well, that is what I want to get at?—A. There used to be.

Q. May I say what I am really getting at is this: It was stated the other day by a very prominent person in the House of Commons, that the check upon the bank's management, available through the shareholders' meeting, was a very important matter, a very important right that the shareholder had, and a very important check on the operations of the board of directors. Would you agree with that?—A. Yes, I think that is perfectly true. I think if a shareholder is dissatisfied, he must come to the meeting. There is no use in his just refusing his proxy or anything of that kind. That won't make any difference.

By the Chairman:

Q. It is no good to write later?—A. No.

By Hon. Mr. Euler:

Q. How many people attend a meeting, may I ask?—A. There are about one hundred, as a rule.

By Mr. Geary:

Q. You were going on to say that while your institution has not had anything of that sort to contend with, you have heard of it happening in other institutions?—A. Not banks.

Q. Have you heard of studied objections being made by shareholders at bank meetings?—A. No, I have never.

Mr. DODDS: We had them years ago.

The WITNESS: Oh, yes, there have been in our own bank years ago. It was some time ago. It was a long time ago, before my time. But we used to have a couple of cranks that came every year or so and raised a row.

By Mr. Geary:

Q. Then, I have asked you this already; you agree, or you consider, that the opportunity given to shareholders, of free discussion at the meetings, and to criticize as they see fit is of some value?—A. I think it was generally that we were not paying a big enough dividend. It was not a complaint about the management of the bank. It was just that they wanted more dividend, more money.

The CHAIRMAN: That is very natural.

[Sir Charles B. Gordon]

By Mr. Geary:

Q. Do you blame them altogether? I mean, people do want more dividends, but that is not my point. My point is just as we had an illustration that was given to us one day not long ago, pointing out—I think it was in the House of Commons—that that privilege of a shareholder, or that right of a shareholder at a public meeting to investigate the affairs of the bank constituted a very good weapon for the shareholders if they are dissatisfied at all with the management of the bank.—A. If any of our shareholders came to a Bank of Montreal meeting and raised an objection to the way our bank was being run, or something of that description, it could not fail to get into the newspapers and be spread around considerably, if there was anything to it; and I think in that way it protects the other shareholders. It would be bound to occur if there was anything to it.

Q. I just wanted to get your view.

The CHAIRMAN: Are there any other questions you wish to ask of Sir Charles Gordon?

By Mr. Spencer:

Q. We heard before six o'clock, Sir Charles, that the new directors were usually suggested by the old directors, and confirmed by the shareholders of the bank at their general meeting. May I ask, what consideration is given to the choosing of these directors, whether from different parts of Canada, or representative of industries. Do you take these things into consideration?—A. The new Board of Directors would be composed of the old directors, and supposing any vacancies might have occurred during the year; there might not be any, and there might be only one or two.

Q. Is it the policy of the bank to keep the board of directors fairly representative of business in Canada, and also of the territorial divisions of Canada?—A. Well, it is not much use having directors that can't attend your meetings. We have two meetings a week, and, of course, we have to get most of the directors from our own district where they can be sure of attending. We have to keep that in mind. We do not think that directors from a distance can be more than advisory for their own district, and we use them in their own districts mostly, that is, our superintendents; for instance, we might use a director in Winnipeg, and we might use a director in Vancouver. We endeavour to get a few directors from different parts of the country.

Q. And you give consideration to the different industries of the country, I suppose, in choosing your slate?—A. Oh yes, especially the ones that we choose from the Montreal district; we try to make them just as representative as possible with regard to industry.

Q. I fully appreciate the difficulty of getting directors that can attend meetings, because I understand that all the head offices of the banks are either in Montreal or Toronto?—A. Yes, that is right.

Q. So that it would naturally make it somewhat difficult. I understand you to say that the rate of interest for commercial loans was 6 per cent throughout the war time; commercial loans, I take it, do not include agricultural loans?—A. Yes, they do, I think.

Mr. DODDS: No, the rate is higher for agricultural loans.

Q. I do not know about your bank precisely, but most of the banks of Western Canada were charging 8 and 9 and sometimes 10 per cent during war time for agricultural loans.

Was the reduction of the rate of interest of one half of one per cent welcomed by the banks when it came last year?—A. It may have been.

Q. At least, a few minutes ago I think you intimated you were rather glad interest rates could be reduced?—A. I was not very much in favour of it myself.

[Sir Charles B. Gordon]

Q. Did not you complain a few moments ago that you had to pay too high a rate of interest on savings deposits?—A. I think that depositors in savings banks have a right to get a fair rate. I have been encouraging savings, and in every country, taking Great Britain, the rate there is about the same as ours; and in the United States it is higher.

Q. I thought you said they were paying less for their money?—A. Oh that is not savings bank money, that is just free money—current money, largely government money—manufactured by the depreciation in gold.

Q. Well, what do you do with your savings?—A. We lend them out.

Q. Doesn't it makes a difference then what you pay for them?—A. Yes.

Q. If you can get them at less, is not it a good thing?—A. It is a good thing, if we lend them again at a low price; but it is not a good thing for the people who want to get something on their savings accounts.

Q. When you were complaining about the interest rate paid for deposits, I was wondering whether the banks suggested to the government, or whether the government suggested to the banks the cut of one half per cent last year?—A. I see Mr. Rhodes recommending a cut of another half per cent off.

Q. Well that is a pretty good thing, if it would have the effect of relief to debtors, but I understand that it was only passed on with regard to agricultural loans, and it was not passed on, according to Mr. Euler, on commercial loans?—A. It has been passed on to a great many of the provinces, and to the larger loans all through the country.

The CHAIRMAN: Such as to municipalities.

The WITNESS: Yes, to municipalities, but not the regular commercial loans.

Q. Then it is possible that the cut of half of one per cent on deposits might have been a money-making business to the bank after all?—A. It has not been reflected in any earnings that I have seen.

Q. Of course, I appreciate that your dividends have been cut to 8 per cent; but don't you think that the banks have been fortunate and the last few years to even pay 8 per cent while most businesses have gone behind?—A. No, I don't don't think they are fortunate at all, because people who invest their money in banking institutions would have been far better off to have had their money in Dominion Government bonds, or Canadian National Guaranteed bonds; they would have been getting much more for their money.

Q. Yes, but there is a limitation even of bonds, isn't there?—A. Yes.

Q. And businesses generally have been having a very hard fight to hold their own for the last three or four years, and the business which has been able to pay eight per cent has not been doing too badly. That is all the questions I have to ask?

By Mr. Power:

Q. Sir Charles, I understand in looking through the list of directorates to which you belong, that at some of the meetings of these directorates outside of your bank you occasionally meet other bankers from competing banks?—A. Yes.

Q. You are, for instance, in some instances on the same board with Sir Herbert Holt. Now, does it ever occur to you to discuss the banking situation as a whole with your competitors when you meet on entirely neutral ground, so to speak?—A. No—you mean, to discuss accounts.

Q. No, rather a discussion of the general banking situation in Canada?—A. I do not think I have ever discussed it with Sir Herbert, so far as I can remember.

Q. When you meet him you would not even say, times are bad—or something of this kind?—A. No. I do not think so. We never discussed business when I met him, except in the textile company—he is on that board.

Q. Then you discussed the textile business naturally, but you would not discuss the banking business?—A. No.

[Sir Charles B. Gordon]

Q. During this last crisis through which we have been going, did you ever have a meeting between the leading members of Canada with respect to the general policy of the bank?—A. Not the bankers themselves, I have not. Our general managers, I think, have. I do not know enough about that to answer it, Mr. Power, but they have meetings all the time.

Q. The general managers?—A. The Bankers' Association.

Q. But not the bank presidents?—A. No, I never go to these meetings, and I never have meetings with any of the other bank presidents.

Q. So that it is fair to say so far as you are concerned that you did not in any way coordinate with any of your competitors to decide on a financial policy which should be followed by the banks during the depression?—A. No. I could not help hearing a certain amount of talk.

Q. But if anything of that kind was done, it would have been done through the Bankers' Association?—A. Yes.

Q. But there were no meetings as between yourself, Sir John Aird, Sir Herbert Holt, and any other president?—A. We never meet.

Q. At least, not to discuss these matters?—A. Never.

By Mr. Geary:

Q. Are you holding as many government bonds as you used to?—A. In the bank.

Q. Yes.—A. I think we have the largest amount we have ever had.

Q. The rate of return on government bonds is lower than it is on commercial loans, for instance?—A. Yes.

Q. Have your commercial loans grown?—A. Our commercial loans are small. There is not enough commercial business. For instance, in the case of the companies that I know about, where they used to borrow quite a lot about once a year—companies such as Dominion Textiles, Dominion Glass, Penman's Manufacturing Company, and a lot of people like that who used to take large loans for a short period of the year and then pay them off—they are not borrowing now.

Q. That commercial business is risky?—A. They are in a better position, they have more working capital than they had and they are not borrowing. That is the nicest business we could get, the company that borrows occasionally during the year, borrows say for six months of the year and then pays off the loan entirely, and comes back for more at the peak of their load. We haven't got that business now.

Q. The great proportion of your money is in Canadian bonds at a lower rate?—A. That is the reason we have to put them into government bonds carrying a lower rate, and our earnings have shrunk to that extent.

By Hon. Mr. Euler:

Q. Is it because they are not desirous of borrowing money, or that they cannot put up sufficient security?—A. The business is not as big as it was, and they have more working capital than they used to have.

Q. They are not asking for it?—A. No, they are not asking for it.

The CHAIRMAN: All right, sir, thank you.

The Witness was discharged.

Mr. M. W. WILSON, recalled.

By the Chairman:

Q. Mr. Wilson, you have heard this discussion with respect to interlocking directorates; have you anything to add to that complaint?—A. I have not prepared any brief on the subject of interlocking directorates. I happened to

[Sir Charles B. Gordon]
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be here and heard the statement submitted by Mr. Dodds last week, and I thought that covered the ground so admirably that I tore up the one on which I was working myself. I do not know that I could add anything to the discussion. I will be very glad to answer any questions.

By Mr. Power:

Q. Can you tell us what are your controlled companies?—A. We have our real estate companies that own bank premises. The statements of these companies are published and are sent out to our shareholders with the report of our annual meetings. These are the only companies that we have.

Q. Who are the directors of these companies?—A. I am not sure that I know them all, they are all people in the bank. They are directors and officials of the bank, I know I am president and manager and I fill the office without salary.

Q. Who holds the shares?—A. The bank 100 per cent; and shows them at $1, that is all indicated in our published statement.

Q. In each case?—A. Yes, sir.

Q. You heard Mr. Dodds, and Sir Charles Gordon, give a statement with regard to the relations between the Royal Trust and the Bank of Montreal?—A. Yes, I did.

Q. I take it for granted that the relations between the Montreal Trust Company and the Royal Bank are similar?—A. Yes, the Royal Bank has no stock, and never has had, in the Montreal Trust—simply an association of interests; that is, a certain number of the Royal Bank directors are also directors of the Montreal Trust.

Q. Would you just tell me off-hand, I haven't it here before me, how many of the directors of the Royal Bank are directors of the Montreal Trust?—A. There are twenty-four directors, and eleven out of the 24 are Royal Bank directors.

Q. I suppose you could not tell me what proportion of the stock or the shares of the Montreal Trust is held by the directors of the Royal Bank?—A. I would not have any idea.

Q. It is safe to say that in all probability the control is in the hands of the directors of the Royal Bank?—A. Oh no, I would not think that.

Q. You would not think that?—A. I would not think that, no; because the stock of the Montreal Trust Company is rather widely held. I do not know of any large individual holdings. You will understand that it is a private corporation; you cannot buy the stock in the open market; and if anybody wants to sell they must first offer it to the directors of the trust company and the directors see that the stock when it is sold gets into the hands of somebody who can divert business to the trust company. They try to sell it to a lawyer or a notary, or somebody whom they think is rich and might deposit his will with the trust company.

Q. I speak subject to correction, but I think, under those circumstances, the number of shareholders must not be more than thirty-five.—A. With the right to restrict the transfer of shares. The Chairman may know something about that.

The CHAIRMAN: It is a Quebec corporation; I do not know anything about it.

The WITNESS: I know there are more than thirty-five shareholders in the Montreal Trust Company.

By Mr. Power:

Q. In all probability it was incorporated by an act of the legislature and has special powers?—A. Yes.

[Mr. M. W. Wilson]

Q. By an act of the legislature of Quebec with special powers?—A. Yes.

Mr. HACKETT: The shares are not traded on the market.

Mr. POWER: No; but Mr. Wilson said there was some restriction on the transfer of shares; and as I remember the Companies Act, in such cases as that the shareholders are limited to thirty-five.

The CHAIRMAN: I do not think there is any limitation in this case.

The WITNESS: I have never heard of it.

Mr. POWER: I am speaking of the Companies Act.

Mr. HACKETT: There is a Trust Companies Act.

By Mr. Power:

Q. I would imagine that the Montreal Trust Company was incorporated by special charter by the legislature instead of by Letters Patent?—A. I do not know. I just know it was a Quebec charter, because last week they were having a small amendment put through down there.

Q. I suppose it was created for the same purpose as the Royal Trust Company was created, because a number of the directors wished to have it act as executors for them?—A. Well, I do not think it was created for that purpose; I think it was acquired after it had been in operation for some years by a group in Montreal city that included a number of Royal Bank directors.

Q. Now, we questioned Sir Charles Gordon as to the difference between affiliates of the American banks such as the Chase Securities Company—what was it called? The Chase Securities Corporation and the National City Company.

The CHAIRMAN: No, the Chase National Bank.

Mr. POWER: The National City Company in relation to the National Bank, and the relations between the Montreal Trust Company and the Royal Bank. Now, could you elaborate a little bit on what has been told us by Sir Charles?

The WITNESS: I think I understand the relationship in both cases. In the case of the American banks, these security affiliates were tied absolutely to the banks, and when a man bought his share of National City Bank he, ipso facto, became a shareholder in the National City Company.

By Mr. Power:

Q. It was a subsidiary?—A. I do not know these legal terms. I think that all of the stock of the National City Company was held by a group of trustees who were directors of the National City Bank. These trustees held that stock in trust for the shareholders of the National City Bank. I think those were the legal mechanics, but, for all practical purposes, it was tied absolutely to the bank, and those security affiliates were what the name would indicate—they were security companies dealing in flotations, trading in stocks and bonds of all sorts. Now, there is no such thing as that in Canada and never has been. No bank in Canada has ever had a security affiliate, and this relationship which you refer to between certain banks and certain trust companies exists only through the fact that certain directors are common to both institutions. There is no corporate relationship. The chartered banks do not own any shares in the trust companies, as in the case of the one that is popularly associated with the Royal Bank. The Royal Bank directors do not even control the Board of the Montreal Trust Company. Moreover, the trust companies in Canada do not do a security business; they simply act as trustees, administrators, registrars, transfer agents. They are not trading concerns at all.

Q. But practically speaking, there must be some advantage to the bank or to a bank to be allied to a trust company, otherwise the condition would not be so general, would it?—A. No, I think it is a perfectly natural thing. A bank is one branch of the financial business, and a trust company is another; and I

think it is quite natural that if a man is one of the directors—for instance, Sir Herbert Holt, the president of the Royal Bank, to mention a name—it is not unnatural in my mind that he should say: why should I not start a trust company? It is a perfectly legitimate business. It performs a useful function in our economic affairs, and, as I say, it is closely related in the sense that it deals with financial problems; and a man who has had great experience in banking and who has been successful in the banking world might naturally say: I, probably, could do equally as well with a trust company. And that has been the experience.

Q. Well, is this a fact, that primarily the trust companies were created in order to deal with estates?—A. Well, you are a lawyer.

Q. I gathered that from Mr. Dodds evidence this afternoon?—A. And other things. It is only one branch of their activities. As a matter of fact, take the Montreal Trust Company—that is a small end of their activities; the big end of their business is acting as trustees under trust deeds, acting as registrars for stock issues, transfer agents, holding securities in Canada for non-residents, managing the estates of people who like to travel, and things like that. The handling of estates of deceased persons, as administrators and executors, is a small end of their business.

Mr. HACKETT: Mortgages.

The WITNESS: They have a real estate department. They will rent a house or find a tenant, and they will sell it again. They have an insurance department. They will place fire insurance and they have to do it in connection with estates they are handling themselves.

Mr. GEARY: Do they take deposits?

The WITNESS: No, Montreal Trust Company does not take deposits.

By Mr. Power:

Q. It is not authorized?—A. Yes, it is authorized, but the Montreal Trust Company does not do it.

Q. Where does it get its funds?—A. Well, it has its own capital funds. The Montreal Trust Company has a capital and reserve close to $5,000,000. Those are the capital funds. Then, of course, they are handling estates that run into hundreds of millions of dollars. I do not pretend to remember the balance sheet figures, but as I say it does run into hundreds of millions.

Q. Well, is it not convenient for the bank to have this close association with a trust company?—A. What do you mean by it being convenient? Do you mean that it is convenient to me as general manager of the bank?

Q. Yes?—A. No. It does not mean anything to me; and, to put it more clearly, it means nothing to the ordinary branch manager, which is more important, because there is only one general manager, and there are 800 managers. I am not anticipating your question, but if there is any thought that we do through the trust company things that we cannot do as a bank, that is all wrong; that is a delusion; because what do we want to do that we cannot do ourselves? The only thing I can think of is to lend money on real estate. Well, heaven knows, I do not want to lend money on real estate. I lived in Vancouver for six or seven years—but that is the only thing in a financial way that a trust company can do that the banks cannot do.

Q. Would it inconvenience the banks at all if we could find some means by legislation entirely to divorce trust companies from banks?—A. I contend that they are divorced now. You might prevent me, for instance, from being a director of the Royal Bank and, at the same time, a director of the Montreal Trust Company. You might do it to annoy me and I might lose a couple of hundred dollars fees, but it would not break my heart, it would not impair my efficiency as executive head of the Royal Bank at all. But I say, why single me out? Why do you want to punish me?

[Mr. M. W. Wilson]

Q. Would it interfere in any way with the bank's operations?—A. Not a bit. The activities of the Trust Company have no more to do with the activities of the Royal Bank than they have to do with the government of Honolulu.

Q. Really I cannot get it through my head why every important bank has connected with it some trust company, but here you tell me and Mr. Dodds also tells me and Sir Charles Gordon also tell me, and I am quite willing to believe all of you, that they are of no use to you and there is no connection between you; so why have them?—A. I do not want to start asking you questions. You are very fair minded. Let me repeat what I said a moment ago. Is it not natural that a group of men acting as directors of a bank, and who have in that capacity acquired a certain amount of financial experience—is it unnatural that they should want to have a trust company as well? In other words, are you going to say to a man in this country: you can be a banker, but you cannot be a trust company official; you can have a sawmill, but you must not have a general store. If you want to do things like that, we will start here; this would be a fine place to start; and unless you are going to adopt the principle generally, I say, why single me out because I happen to be a bank director as well as a trust company director? Is there anything in the argument?

Q. I quite see your argument. The sawmill and the store are associated; but, as a matter of fact, along the same line of argument, we found it necessary years ago in Canada to endeavour to segregate the store from the fur traders and from the lumbermen because it was considered that by keeping the two together—the fur trader and the fishermen—who issued their own currency and their own credit— —A. They gouged the workman; there were abuses, and it was proven. But in this case nothing is proven, nothing is alleged. There is a vague sort of suspicion that there is something sinister.

Q. There is a soft suspicion?—A. Nobody has brought anything forward. Ten years ago we had a long discussion, the fire insurance people alleging that the banks were using their influence to divert fire insurance business to the trust companies. It was gone into at great length. I do not know whether you were concerned in that investigation. What happened? Not a thing was proven. It was just suspicion. I do not think we should be denounced on vague suspicions.

Q. No. The object of this inquiry, in so far as we are able to get anywhere through calling people most interested, as was properly pointed out by Mr. Euler, is to find out if there is anything in that suspicion. You say there is not?—A. There is not. I can speak from experience.

Q. I am quite willing to believe you?—A. Remember the managements are entirely separate. The Montreal Trust Company have their general manager, assistant general manager and secretaries all over the country. Those fellows hate the Royal Bank men. They are fighting all the time, notwithstanding the fact that they have directors in common. We have more rows with the officials of the Montreal Trust Company, I give you my word, than with any other organization I can think of. The man who sits next to me in the head office of my bank is cursing about the trust company all the time. They want us to do something for nothing; and he says, "I am thoroughly fed up with them."

Q. Why would they ask you to do something for nothing?—A. Because they carry very valuable deposits, mostly with us, and they are, like other people, trying to get something from us all the time.

Q. That is to say, they bank with you?—A. Certainly they bank with us.

Q. And they seek, as a very important client, to get special consideration? —A. They are carrying three, four, five or more million dollars with us all the time, and because of that they want us to do favours for them, and we say we will not, and naturally they fight. They do not refer these things to me; they have a sense of delicacy. because they think of me in a dual position. They fight it out among themselves.

[Mr. M. W. Wilson]

Q. What business is there between the two—institutional business?—A. None. They do not do anything for the Royal Bank. They do not handle our pension fund, our insurance or anything. We are their bankers, but we are bankers for other trust companies than the Montreal Trust Company. Seven of our directors are directors of other trust companies across the country—not the same directors who are on the Montreal Trust Company, but they are directors in Halifax, Vancouver, Winnipeg, Toronto and so forth.

By the Chairman:

Q. Do you buy and sell securities from each other?—A. No, we do not. they are not in the security business; they have no securities to sell.

By Mr. Power:

Q. If you buy securities you buy direct, not from the Montreal Trust?—A. No; we have our own bond men who know more about the security business than they do, because they do a lot more of it.

Q. Now that you are here, may I ask you whether there has been any co-operation as to the questions which I asked Sir Charles Gordon? Has there been any general co-operation during the last few weeks?—A. You mean co-operation as to credit policy?

Q. Yes.—A. Well, the general managers talk to each other all the time. I mean, hardly a day goes by but what I telephone general managers of other banks. What we do is not done in a formal way. We do not sit around the table and decide whether to do this or that; but there are many different situations in which more than one bank is interested. We naturally talk the problems over. You referred last week to the stock exchange crises in Montreal. In matters of that sort, naturally the general managers talk together; but we do not sit down and have lunch together, or have a dinner together, and leave the table and say, " Now, it is agreed we are all going to do thus and so." It is an exchange of views. We are interested in what is going on in the country. We want to do the best we can to keep the thing on the rails, and somebody else may have views which I think might be helpful, and I am anxious to get those views.

Q. To follow up the question asked by Mr. Euler, when the rate of interest on savings was decreased, why did you not decrease the rate of interest on commercial loans?—A. When the rate of interest on savings was decreased, we immediately reduced the rate on farmers' loans in the west. That may be regarded as a gesture, I do not know. You can place your own interpretation on it; but so far as we are concerned, and I have no doubt it applies to the other banks as well, the whole savings that were effected by reducing the depositors' rate one-half of one per cent, was lost through the lower rate that we got on our government bonds. A year or so ago we used to get 5 per cent, $5\frac{1}{4}$ per cent, and $5\frac{1}{2}$ per cent on government bonds. I bought some from the Minister of Finance two days ago at 2·75 per cent.

Q. Short term loan?—A. $5\frac{1}{2}$ months. That is where it goes. Speaking from memory we have in Canada about $260,000,000 of savings accounts. A half of one per cent of that is $1,300,000. If you have $100,000,000 in Dominion and provincial bonds, as we have—we have more than that—you can see—$1\frac{1}{4}$ per cent of the holdings on bonds and it is all gone; and that is what happens to us. Our bonds are just as good as the other fellow's, and I am sure the other banks have the same experience.

Q. I think it was you who said the other day it cost you $4\frac{1}{2}$ per cent for your money?—A. I did not say that, but I would agree with that. I heard it said by some general manager.

Q. This would be taken into consideration as overhead of the bank, would it not?—A. Expenses. We pay $2,000,000 taxes in Canada. Nova Scotia put up our taxes yesterday, when I was up here testifying, by $11,000.

[Mr. M. W. Wilson]

Q. I am sure that won't break you.—A. Well, it hurts. It won't break us, but it hurts.

Q. I have heard it said that all you paid irrespective of overhead and taxes, for the money that you used, is something under one per cent.—A. You understood me to say that?

Q. No, I didn't understand you to say that; I heard it said.—A. Of course, that is—

Q. Is there any justification for that?—A. None at all.

Q. Well, the argument is something along those lines, that you paid on the savings deposits only on the daily balance; is that right?—A. On the minimum monthly balance. I think that is the way it is actually expressed.

Q. Would not that save considerable interest?—A. You mean would that have the effect of bringing or making the rate under $2\frac{1}{2}$ per cent, or something substantial.

Q. Yes.—A. No; that has a very fractional effect on it. I would say offhand that may reduce the rate from 2·50 to perhaps 2·45, or something of that sort.

Q. Not any more than that?—A. No, it would not.

Q. Then, there are the current loans which you have?—A. Commercial loans?

Q. Yes, commercial deposits?—A. Yes, current deposits.

Q. On which you pay no interest?—A. We have a substantial amount of current accounts on which we do not pay interest to depositors. I have not the figures here but I think it would be somewhere around \$100,000,000, \$100,000,000 to \$125,000,000.

Q. Would that help to decrease the rate of interest?—A. It certainly helps. Every dollar we can get free helps.

Q. Would you care to give me an estimate of how much it would help to decrease the interest?—A. No. I am afraid to give into the record figures from memory. I can easily get them. For instance, here is something that is helpful. I can give the monthly returns. The monthly returns are made on a different basis and that is the reason I can give them. The secretary of the committee hands me this clipping of our last annual report. At the end of November we had \$600,000,000 of deposits. Of this amount \$128,000,000 were free; that is, we did not pay any interest on that amount.

Q. One-fifth?—A. Yes, about one-fifth. That is the figure Sir Charles used. He said it is reversed down in New York. Down in New York they pay interest on one-fifth of their deposits. In Canada we pay interest on four-fifths of our deposits. That is why it is so much harder for us to make money in Canada, than it is for those New York banks. We have not much free money, and moreover, that money is spread through 800 offices, in our case.

Q. What other factors would enter into the lowering of interest rates which the banks would pay?—A. What other factors?

Q. Yes, what other factors conduce to the lowering of the rate of interest which you would pay for your money; what other reasons are there, apart from the current aspect, apart from the system you have of paying only on the minimum monthly balance of deposit accounts?—A. Do you mean what were the motives?

Q. No; what other factors will assist in giving you cheap money?—A. Well I do not know of any.

Q. Except cheques? That would be one, but it would not amount to much?—A. That is nothing; that would be part of the figure I mention, \$128,000,000. Certified cheques would be in that, because a certified cheque does not carry interest and that obviously would be part of the item of \$128.000,000.

[Mr. M. W. Wilson]

Q. There would be very little over and above that $128,000,000?—A. That is so.

Q. What you would call free money?—A. There would be, because that is the only thing we have in the way of free money, free deposits.

By Mr. Bothwell:

Q. How is that free money considered?—A. Somebody has to carry current accounts, business accounts, as distinguished from savings accounts.

Q. Any account that does not bear interest is free money to you?—A. Yes.

Q. And I suppose the peak of the monthly account of any small depositor or large depositor would give you a certain amount of free money. There would be a certain amount of money between the peak and the minimum balance?—A. Yes, the tendency is for the working balances of current accounts of your commercial customers to reach a peak at the end of the month. That is the tendency. I see it in the figures I am looking at every day. You get deposits around the end of the month and they disappear in the next few days.

Q. What is the service charge for free money?—A. Service charge?

Q. Service charge.—A. Well, that is something arising out of services that we have to give to a customer who carries a very small balance and issues a large number of cheques.

Q. And can legitimately be put against overhead and expenses?—A. That is the only way; that is the income. Service charges and overhead and expenses are a different thing.

Q. That is income which can be set off against overhead and expenses?—A. It is a source of revenue; a small source, but it is a source.

Q. What is the reason for the United States banks getting four-fifths of their money free?—A. Government action, but in Canada it is one-fifth. That is part of the policy of the federal government of the United States to rehabilitate the banks down there, to get them on the basis where credit would be cheaper; and it is against the law for a national bank—

Q. That is a recent enactment?—A. Yes, within the last twelve months.

Q. Prior to that the ratio would be the same?—A. Yes, but they paid a very low rate of interest.

By Mr. Power:

Q. A lower rate than you?—A. Yes. I am speaking now of course, of commercial banks because down there they are separate from savings banks.

Q. I do not want to go over the same ground that I went over with Mr. Dodds or Sir Charles Gordon, with you, but your evidence on all the points which were raised with regard to interlocking directorates would be substantially the same as theirs?—A. Yes, I agree substantially with what Sir Charles Gordon and Mr. Dodds said.

By Mr. Bothwell:

Q. I should like to ask a question, Mr. Chairman, that is hardly germane to the matter that we are discussing this evening; but a year or two ago when a committee of this House discussed the Canadian National Railways, there was considerable talk over the entertainment expenses of C.N.R. officials, and the question has been raised as to how much the banks spend by way of entertaining expenses. My question is based on that preliminary statement, but what I am going to ask is this: have the banks a fund set aside to enable local branch managers to join golf clubs and things of that sort?—A. I am quite ready to answer that question.

The CHAIRMAN: Go ahead. This is a private institution, however.

[Mr. M. W. Wilson]

By Mr. Bothwell:

Q. I want to explain that this does not concern me very much, but in this committee we are endeavouring to clean up a lot of the suspicions that seem to be in the public mind?—A. I will be very glad to answer the question to the best of my ability. We have nothing to correspond with what I understand was in the C.N.R. under the old regime. On the other hand, I do not want to suggest that our officials, on occasions, if they are called upon to entertain people, customers of the bank, or people from abroad, do not charge it to the bank; they do. We allow each man to spend a certain amount of money, but very small. If we find a man spending, in Toronto, $50 or $75 a month, we think he would be going pretty far, no doubt. In Montreal—

Mr. JACOBS: In Toronto—

The WITNESS: In Montreal you can quite understand the situation. That is the head office of the bank and we have people coming from the continent and from the south of us, and so on. Some of them are connected with the banks and have some claim on us, others are sent to us. You can use your own imagination; they just come there, and our men, perhaps have to look after them, take them to lunch. We take them to dinner or to a game of golf, and we do not object to them charging that to the bank. In fact, we allow them to do it. We do a certain amount in the way of paying club dues, but nothing extravagant. It is not fair where we send a man around the country from city to city, that every time he goes to a new town he should have to put his hand in his pocket and pay $50 or $75 to join a club. We will pay his club dues for one club. We do not go spreading it all over the city, or anything of that sort.

Q. The suggestion has also been made along that same line, that all of the banks here in the capital of Canada do a considerable amount of what is in the nature of "lobbying," and the expression has been used—I am telling you just what I have heard—that the banks have put on an effective "lobby" in Ottawa through entertainments and one thing and another?—A. If that is done, it is certainly done without my knowledge. I have never heard anything of that sort.

The CHAIRMAN: I have been here a good while, and I have never heard anything of that. More than that, I have never met it.

Mr. BOTHWELL: I have heard it, and the reason I am asking the question is just to clear that up.

The CHAIRMAN: I have never got in on it, and the Minister of Finance has not, he says.

Hon. Mr. RHODES: I may say if that is so, they have overlooked the Minister of Finance.

Mr. BOTHWELL: I don't know myself. I just wanted an answer.

The WITNESS: If it is done, it is done without my knowledge, which means it is not being done by the bank. If our manager is so foolish as to do it out of his own salary, that is up to him. I don't control his entertainments.

Mr. BOTHWELL: That is all. I just wanted to clear that up.

The CHAIRMAN: Are there any other questions?

By Mr. Spencer:

Q. I understood Mr. Wilson to say that not only have you the Montreal Trust Company, which is affiliated, I take it, with the Royal Bank— —A. It is not. I said distinctly it is not affiliated with the Royal Bank.

Q. Then what relation—did the Union Bank have a trust company?—A. I don't know—or, yes, they did.

[Mr. M. W. Wilson]

Q. When you took over the Union Bank, what became of that trust company?—A. That trust company was just a holding concern, and held certain assets of a distinct private banking concern out in Saskatchewan. It has never operated since we acquired the Union Bank and is simply a liquidating proposotion, realizing on their assets, paying their debts as fast as they can, and we are writing them off as fast as they are paying them.

Q. That will be wiped out in time?—A. Yes. I say it is a liquidating proposition.

Q. Do the Montreal Trust buy and sell securities?—A. No, not in the sense—you cannot walk into the Montreal Trust Company and buy securities over the counter.

Q. It is not in the same category then, as the Royal Trust Company that we heard about this afternoon?—A. Well, I didn't suggest—I didn't hear it suggested they could.

Q. I understand they do?—A. Oh, I don't think so, except for their own clients.

Q. I mean for their own clients?—A. Yes, the Montreal Trust will do that. If you are going to Europe and you ask them to collect your revenues, your rentals, and reinvest them, and you give them instructions to put the money in corporation bonds or government bonds, they will do that for you.

Q. To that extent they are in competition with the bank?—A. Oh, yes, of course they are.

The CHAIRMAN: Any other questions.

By Mr. Geary:

Q. You invest estate funds constantly?—A. Yes, surely.

The CHAIRMAN: Are there any other questions to be asked of Mr. Wilson, because it is not probable that he will be back.

Mr. GEARY: I don't blame him.

Mr. JACOBS: He may be back ten years hence, and we all hope he is.

The CHAIRMAN: He may be, but we may not be.

Mr. COOTE: Before Mr. Wilson leaves, there are one or two questions I want to take up with him, but they are not really related to this question, and I do not think—

The WITNESS: I don't mind.

Mr. COOTE: I don't think that they should be asked at this hour of the night.

The CHAIRMAN: I am only anxious to get through with Mr. Wilson, go ahead.

The WITNESS: I have no objection. Go ahead, anything you like.

Mr. COOTE: It does not refer at all to the interlocking of directorates.

The WITNESS: I know about things apart from that.

Mr. COOTE: You know, we have been very careful in this committee to decide that we must take up one thing at a time, and try to stick to it.

The CHAIRMAN: We have not stuck to it very much, although that was the idea. Go ahead and ask your questions.

By Mr. Coote:

Q. Then, in regard to the pension fund, I have a letter from a former employee of the Royal Bank, and I am sorry I have not got it with me. I believe he was paid off by the bank some time ago. I suppose they did not need all the staff. I know they have been closing branches. He has been with your bank quite a long period of years, and when he was paid off he received half of the amount of money that he had paid into the pension fund?—A. That is his contract with the fund.

[Mr. M. W. Wilson]

Q. Does he sign a contract to that effect?—A. Yes, surely. It is just the same as insurance. When a man becomes twenty-one years of age, provided he can pass the medical examination, he automatically comes under the benefit of the pensions fund, and he signs an agreement agreeing to abide by the rules of the fund. That is one of the rules, that he gets back half his contribution should he retire from the bank at any time.

Q. Suppose the bank retires him after he has paid in for five years?—A. The same thing. The bank can retire me any time, give me thirty days' notice or thirty days' salary, and what applies to me applies to everybody else in the bank.

Q. Would you explain to the committee just what that man gets back out of that fund, say after five years' service in the bank?—A. He gets back half of his contribution.

Q. And that is all?—A. That is all. The pensions fund has carried the risk in the meantime. If he had become incapacited, the pensions fund would have had to pay a pension for the rest of his life, and when he died, would have to carry on for his widow for a certain amount. The fund must be compensated for that, just the same as any insurance company must be paid for carrying the risk.

Q. Does your pension fund also cover insurance?—A. Also insurance? No, we have not any insurance fund. We insure all our employees through group insurance, under an arrangement that is very favourable to them.

Q. You said if he had died, his wife would have got it; is that it?—A. If he had died, half of the pension that he was receiving would continue on with his widow during her lifetime.

Q. But he would not get any pension, would he, for five years?—A. Well, you are putting me in a position—I have not got the rules here. Is it ten years? Yes, he must have served ten years before he is eligible for a pension. In other words, he joins when he is twenty-one, and when he becomes thirty-one he is eligible for a pension should he become incapacitated.

Q. Do you think that is a fair arrangement for bank clerks who may be let out from the institution before the ten years expire, to keep half of the cash contributions they have made to that fund?—A. Well, would it be fair to the other members of the fund to do otherwise? This fund must carry the risk while he was working with the bank.

Q. Would you mind telling me again just what risks there are involved? —A. Well, if he became incapacitated. We have a man who is on the pension fund—I remember we took over a bank one time and a man was on the pension fund from the time he was thirty-five years of age. He had tuberculosis. He never worked a day for the Royal Bank. We paid him a pension for about fifteen years, and he died, unfortunately, and we are now paying his widow. That man never paid a cent to us—and when I say to us I mean the fund that I am speaking of.

By Mr. Hackett:

Q. That is on an actuarial basis, of course?—A. Oh, yes.

Q. They would have to pay more for annuities?——A. Oh, they could not buy an annuity on the basis on which they get paid on the pension fund; because in addition to the contributions made by the official himself, the bank contributes a substantial amount every year. In our case, the shareholders authorize $200,000 a year.

By Mr. Coote:

Q. I can see that it is quite an advantage to the man who stays in the service a set length of time, and retires when he reaches a certain age?—A. Yes.

[Mr. M. W. Wilson]

Q. But a man who is taken into the service at any age, a young man who perhaps works eight or nine years, and when the bank is cutting down its staff, does not need him, turns him out and gives him half the money he has paid in, I think would naturally regard that as sort of a hardship. He is turned out altogether, and looking for another job, and he has no pension coming at all?—A. Yes, but in how many walks of life does a man have a pension? Not very many. And furthermore, how many men are there such as you suggest, who work for a bank for nine or ten years and they are turned out, to use your expression? Very few.

Q. There may be very few, but I happen to have had several come to me?—A. Oh, I don't say that there are none. There are some, unfortunately. But we have all had to do things in the past few years that we never dreamed, five years ago, we would have to do.

Q. What I would like to ask is if the administration of the pension fund in that way is as fair to the man who is turned out by the bank in anywhere from five to ten years, as it is to the man who is kept on by the bank and reaches the retiring age and has a good pension for life. That is a very fine thing for him?—A. Yes.

Q. It is a very fine thing, but it does seem a hardship upon a man who has perhaps spent nine years in a bank and is turned out?—A. You suggest that this man who leaves after serving ten of fifteen years should get back all his contribution, do you?

Q. I am not saying whether he should get it back or not?—A. You say 50 per cent is not enough. What would be enough?

Q. I do not know exactly how it would work out on an actuarial basis?—A. No.

Q. That money has been earning interest?—A. Surely, it is accumulating.

Q. And in the great majority of cases these young men have got nothing out of it?—A. Except protection. That is all I get for my life insurance, my protection. It is all I get for my fire insurance, protection against some calamity, and that is all it is intended to be.

Q. Is that accidents, for sickness and everything?—A. If he is incapacitated, if he cannot work, he is entitled to a pension.

Q. And that goes for every employee?—A. Every male employee, provided he can pass a medical examination at the age of twenty-one.

Q. Would you assure me that that is as fair actuarily to the person who is put off without any pension at all, say, at the end of the first ten-year period, as to the man who is kept on and completes his service in the bank?—A. I will say it is fair, for this reason; because (I am just using round figures now, don't hold me to this) I do say that if officers of the bank are putting up \$200,000 themselves, that is a certain percentage of their salary, that is matched with an equal amount voted by the shareholders every year; in other words, \$400,000 is the total payment to the fund. Now a man retires and he takes back half of what he puts in. In other words, the Pension Fund gets out of that—I do not know the percentages—gets \$300 and gives him back \$100. To me that seems to be a fair proportion, but what is fair and what is not fair in a matter of this kind is largely a question of judgment.

Q. Would you object?—A. Many other institutions think it is fair.

Q. Would you object to filing for the benefit of the committee a statement showing what a man, retiring at different periods, would pay into that fund; and what he would get back—I mean, have you any information of that kind that you would not mind giving?—A. I would not mind giving you anything like that. There is nothing confidential about it. They put up 3 per cent of their salaries; in other words, a man getting \$1,200 a year pays in \$36, when he retires he gets \$18 back.

[Mr. M. W. Wilson]

Q. Well, if you could give me a statement I would appreciate it?—A. I will be glad to prepare such a statement, and I will consult with you and see exactly what you want.

By Mr. Hackett:

Q. Is there something in the idea that during the first ten years this man is receiving training which will suit him for almost any other business he might choose to go into?—A. Oh yes. It is not so many years ago now when a father put a son in a bank the father had to pay the bank money for training him for the first two or three years. I remember that when I went into the bank and got $75, my father told me I was lucky that he didn't have to pay to get me into the bank.

By Mr. Coote:

Q. Just one more question in regard to that: does a man have to reach a certain age before he draws a pension?—A. Speaking again from memory, I think he is entitled to a pension after he has served ten years; in other words, any time after he reaches the age of 31. I would much prefer it if you would allow me to bring the book of rules to show you. There is nothing confidential about it, every man who is a member of the staff has it, and there are about five or six thousand copies in circulation. I will be glad to get one for you.

Q. The next question I want to refer to is the matter of special service charges, for returned cheques, for cheques in excess of a certain number, and so on; I wonder, Mr. Wilson, whether you could get for us—perhaps it would show best what I want if we could get the amount that is collected through all these various service charges, say at the various branches that you have in the city of Vancouver; would that be too much trouble?—A. I will look into that letter you gave me, if that is what you mean.

Q. I have had a number of communications in regard to this matter of service charges?—A. And that is a case which has been engineered by an individual, whom I am not going to name. You would hate to see his record, it was given to me in Montreal yesterday and I gave it back, I said I won't show that to Mr. Coote.

Q. I think that is the only way for the committee to get an idea as to whether or not these charges are unreasonable, and I would like you to take that as a request and let me know?—A. I will see what I can do on it for you, I will speak to you about it in any event, Mr. Coote.

Q. Now, there is another matter I would like to take up with you just for a few minutes more, and that is in regard to the business which Canadian banks do outside of Canada. I am sorry I have not these figures worked out. I will just have to take them off the bank return here. I notice your current loans outside of Canada amount to $101,000,000 and your call loans $34,000,000, a total of $135,000,000; and I think there are perhaps securities and other assets which you hold outside of Canada?—A. Oh yes, we hold British and American government bonds.

Q. That is quite a large amount compared to the amount of your capital, and I just want to ask you this question, whether it would not be good policy for Canadian banks doing very much business outside of Canada to put that business in the hands of a separate corporation; that is, to separate the Canadian and foreign business?—A. I thought you did not like controlled companies, that you wanted everything out in the open.

Q. I think this would be quite in the open. It would be a separate institution so that the funds of Canadians should not be involved so by outside occurrences such as revolutions, which might very easily take place in foreign countries?—A. Well, I have had a good deal of experience in international business,

[Mr. M. W. Wilson]

having spent all my life in the Royal Bank. As you know, and as you indicated, we have a large foreign business. You have shown one phase of it, our loans, but you have not mentioned that we have deposits outside of Canada of $160,000,000 odd at the same time. I do not think it would be a good idea of us—speaking as a practical banker, based on my own experience in the Royal Bank—I do not think it would be a good thing for us to attempt to do business in foreign countries through a subsidiary, because I think it is good that the prestige and standing of the whole institution should be back of us wherever we put up a sign. I think that is important. We have been encouraged by business institutions in Canada who are doing an international trade to do what we could to help develop that trade, and perhaps we have taken a lead in that respect.

So far as revolutions are concerned, I may mention also that I have had quite a bit of experience in revolutions. I have been through several myself, and my experience is that these revolutions are no more serious than riots such as we had in Montreal, which looked rather serious from a distance, looked much more serious from a distance than they did when you were on the spot.

Q. I did not intend for a minute to suggest that you had more loans outside of Canada than you had deposits. I am just pointing out that there is in my opinion a certain amount of risk there to Canadian investors?—A. In my judgment there is no more risk in our loans outside of Canada than in; and I say that with one or two minor exceptions, Cuba in particular, I wish our loans in Canada were as good as our loans outside of Canada—and I say that without wanting to be invidious.

Q. I do not doubt that at all. I take it for granted that the Royal Bank would be just as careful in placing their loans outside of Canada as they are inside of Canada. But do we not have more reason to fear for the safety of investments in—let us say Cuba where conditions are possibly not so stable?—A. You are suggesting where there is need for "peace, order and good government."

Q. "Peace, order and good government," if you like?—A. That appears to be very popular expression around here these days.

Q. We know from experience that that does not always prevail in some of these countries?—A. I know there are certain countries of which that is true. I quite understand what you have in your mind. You read about these revolutions like in Brazil. What you don't hear and what I know is this: for instance, about a year ago they had a revolution in Sao Paulo, and they had barricades in front of our offices there. Sao Paulo is a city about the size of Montreal. They very obligingly called a truce in the morning, so that the first lot could go to lunch, and another truce in the evening so that the other lot could go to dinner. That is how serious these things are, but you don't read that. I am serious about this, you don't read about that in the press up here; we hear about it from our men on the spot.

Q. Well, we do read some things in the press occasionally that upset us a little bit, and I remember reading last year that the National City Bank had lost I think $30,000,000 in the sugar business, and I suppose as it was a United States institution that it was probably in Cuba. I take it for granted that the National City Bank thought they were doing a perfectly safe business at one time, but due to the terrific break in the sugar market—I do not know what countries the loans you show here are in, but we do hear sometimes of revolutions—I do not like to mention countries, but in some of them there are uncertain conditions?—A. I have no embarrassment in talking about Cuba; I would talk about Cuba just as soon as I would talk about Nova Scotia or Saskatchewan.

[Mr. M. W. Wilson]

Q. You are not a member of parliament and I am afraid the government might censure me if I said too much about Cuba, or any particular country?—A. I will talk about Cuba, it is an agricultural country, dependent upon sugar and tobacco. Both of these commodities have been selling at a very low price, and on top of that they have had a bad political situation. They had a revolution down there, you know, this past six or nine months. The only material damage done to the Royal Bank there by the revolution was that they smashed some shutters of ours that cost us $100; and one of our tellers got so excited that he took a revolver of the bank's and went out to the back yard and finished himself off. That was the extent of the damage done to us. We have been quite safe down there. As far as we are concerned, our operations are on a very much smaller scale than years ago. Five or six years ago we had 75 branches; to-day we have 22 or 23.

Q. What percentage of your business is outside of Canada?—A. Well, our deposits are about 170 millions, and our figures are something near 700 millions, our balance sheet figures. I can figure that out.

Q. Twenty some per cent?—A. Yes.

Q. There would be no insuperable difficulty in incorporating that in a separate bank, if desirable?—A. No insuperable difficulty, but a disinct disadvantage, because people like to do business with us in those countries because we are a British institution, and British institutions, and Canadian institutions in particular, have a special standing in many of those countries. That is why we are not hurt in any of those revolutions. We always supply our branches with a Union Jack which they always run up, and it helps.

Q. In case of a revolution, it helps?—A. That is part of the bank equipment.

The Chairman: I could tell you a good story about Venezuela. Now, Mr. Logan is here from the Bank of Commerce. I asked him to come because I understood some questions would be asked in connection with that bank.

Mr. Jacobs: Is it not usual to adjourn at 10 o'clock?

The Chairman: We would like to get through to-night, because we are going to deal with the Bank Act next Tuesday.

Mr. S. H. Logan, recalled.

By Mr. Power:

Q. Have you any statement to make, Mr. Logan?—A. I have a short brief here. It is very much along the lines of what has been said. I will file it in the record.

The Canadian Bank of Commerce

INTERLOCKING DIRECTORATES

Mr. Chairman and Gentlemen,—I feel that there is very little that I can add to the comprehensive brief which has already been submitted to you by Mr. Dodds. It is, of course, for very obvious reasons that banks in filling vacancies on their boards should often choose men who are directors of other leading corporations. The fact that these men have succeeded in rising to prominence in some other line of business indicates that they have ability, force and sound judgment, qualities that are of great importance in the administration of a bank. The selection moreover of men with such a connection, provided the bank carries the account of the corporation, adds a strong tie to the business relationship between the corporation and the bank.

In my nine years' experience as General Manager I have never known any member of the board of my Bank to attempt either directly or indirectly to restrict or deny a credit for which application had been made by a business

[Mr. M. W. Wilson]
[Mr. S. H. Logan]

competitor of his own. Indeed if such an attempt were made and the application was a reasonable credit risk the rest of the directors would unquestionably overrule the objection. No board would consent to sacrifice remunerative and satisfactory business offered to the bank merely to give one of their number a trade advantage over a rival.

You might be interested in a short summary which I have made of the banking arrangements of the 143 firms which included on their boards any Directors of The Canadian Bank of Commerce.

	Firms
Banking business conducted with other banks.	63
Depositors with but not borrowers from the Bank. . . .	43
Occasional borrowers from the Bank.	9
Regular borrowers from the Bank.	28
(11 of these accounts are divided with other banks)	
	143

I do not think that the words "interlocking directorates" deserve, as far as the banks are concerned, the sinister significance they have acquired recently.

Q. Will you tell me what companies are controlled by The Canadian Bank of Commerce?—A. We have the Dominion Realty Company. That company's annual statement appears each year on the back of our annual published statement. It owns many of our buildings, and all the shares are owned by The Canadian Bank of Commerce.

Q. In whose names are they held?—A. Well, they are held outright by the bank, and the directors are all directors of our bank. No one draws any director's fees or anything of that nature.

Q. What business does the Dominion Realty Company do?—A. The Dominion Realty Company for many years—it was started, I think, in 1903—for many years it has owned many of our important buildings, including the head office at Toronto. It has a regular published statement.

Q. Does it own any other real estate except bank premises?—A. Oh, just as it may own certain properties that have been bought by the Realty Company but only for bank property purposes.

Q. It does not deal in real estate. It is not a realty company?—A. Absolutely not.

Q. Have you any other controlled companies?—A. There is Alloway-Champion, Winnipeg. We took over the banking business of Alloway-Champion in Winnipeg some years ago. Mr. Alloway was concerned about his deposits, and he felt the thing to do was to sell out to someone. We took the business over and ran it for a few years, and the last few years it was gradually liquidated. It is a liquidating proposition from our standpoint.

Q. It is liquidated; but it was formerly a private banking business?—A. Formerly a private banking business. We finally took over all the deposits, and now we we are liquidating the concern.

Q. Have you any other controlled companies?—A. The Mexico Corporation. That is the Compania Inversiones Urbanas. Within the last few months we decided to withdraw from Mexico. As soon as our depositors are paid off that company will be liquidated, and we will sell the property. The reason for our having that company at all was because a foreign corporation could not own or hold property in Mexico.

Q. Do I understand that it is liquidating your bank assets in Mexico?—A. In the city of Mexico.

Q. And you are looking after your depositors and so on?—A. The banking end of the business and the depositors are nearly all paid off now.

[Mr. S. H. Logan]

Q. It really meets with the suggestion made by Mr. Coote a moment ago, that as far as Mexico is concerned you have a subsidiary company there?—A. We have a subsidiary company there to hold property, not for carrying on the banking business. Now, that company is being liquidated as quickly as possible. Then, we have The Canadian Bank of Commerce in California. For many years we did business in the state of California just as an agency of The Canadian Bank of Commerce, but five years ago, having in mind the fact that Los Angeles was a very important point where there are a great many Canadians, we asked the State Bank Examiner whether he would allow us to open a branch in Los Angeles. He said that if we organized a State corporation he would consent to it. So we organized a State corporation, and all the shares of that corporation are owned by The Canadian Bank of Commerce, except the qualifying share for directors. Those qualifying shares are held by officers of The Canadian Bank of Commerce.

Q. And those are all the controlled companies?—A. Those are all the controlled companies we have.

Q. I have not my file with me, but what controlled company, or what company connected with The Canadian Bank of Commerce, owns the building formerly occupied by the Bank of Hamilton in Hamilton?—A. That, I think, is bank premises now. Yes, I am quite sure that is in "Bank Premises" account. That is where we have our office, the main office, at the present time.

Q. Would that be the Dominion Realty?—A. No, I think it is in the Bank Premises.

Q. Owned directly by The Canadian Bank of Commerce?—A. I am not positive, but I think it is. There was a time many years ago when all small offices were owned by the Dominion Realty company, and the important offices like Toronto, Montreal, Winnipeg, Vancouver, were owned by The Canadian Bank of Commerce. We thought it was better policy to carry these offices in bank premises. Then with the consolidation of the Bank of Hamilton and the consolidation of the Standard Bank, their properties had to be taken into the general bank premises account, and now, just from memory—there are hundreds of them—I cannot tell you which is which, but I think the Hamilton one is in the "Bank Premises" account.

Q. There is a company, I do not know the name of it now, but it might be the Dominion Realty company, the principal shareholders of which are Sir Joseph Flavelle and Sir John Aird?—A. What is the name of the company?

Q. I think it is The Dominion Realty Company. Sir Joseph Flavelle I think owns a large number of shares, he is listed as owning a large number of shares, wherever you have to register the shares, such as in Ontario under the Security Frauds Acts?—A. Sir Joseph is president of Dominion Realty. I must say I cannot exactly tell you in whose name those shares are registered, but they are all owned by the bank.

Q. Would it be possible for those shares to be held and registered in the name of Sir Joseph Flavelle and Sir John Aird?—A. They might be in the name of nominees.

Q. In their names as nominees?—A. As nominees they might be.

Q. Instead of in the name of the bank as such?—A. I could easily verify that all the shares of The Dominion Realty Company which are actually owned by the bank.

Q. The complaints which I have heard about that is, that presumably the Dominion Realty Company is in competition through its holdings and bank premises and office buildings with other realty companies which own office buildings in both Toronto and Hamilton?—A. That is the Dominion Realty Company proper?

Q. Yes?—A. Well, I suppose some of it is levelled at the head office building which we put up in Toronto. I suppose that is it.

[Mr. S. H. Logan]

Q. Have you any other places where you have taken over other banks such as in Hamilton?—A. In Hamilton we had no choice. The building was there. We do not usually build high buildings of that kind, except at head office. That is the only building we have of that nature. When we took the Bank of Hamilton naturally we had to take the building with it.

Q. Personally I would not complain of it, but there is a complaint you are lowering rents to business concerns and seriously competing with other office buildings?—A. Was that in the city of Hamilton?

Q. Both Toronto and Hamilton?—A. Not in Toronto.

The CHAIRMAN: I think I had a letter from a lawyer in Hamilton on the same subject matter; he asked to be heard.

The WITNESS: We have not lowered any rents in Toronto. Our building has been fully occupied ever since it has been put up.

The CHAIRMAN: And in the city of Hamilton?

The WITNESS: I cannot tell you about that; I cannot say what the rental situation is in the city of Hamilton.

Mr. POWER: If the Chairman has the letter, I should like to get the name.

The CHAIRMAN: My file is upstairs. The files have grown tremendously, and they are still growing. He was complaining of the competition of The Canadian Bank of Commerce. The complaint was about the office buildings selling space.

Mr. POWER: Yes, that is the complaint.

The CHAIRMAN: He was talking about the competition.

The WITNESS: Well, I would have to know where that point is.

By Mr. Power:

Q. Hamilton was one, and Toronto the other. And then there was this other suggestion, that the companies which did business with you and whose directors were also directors of your companies, almost invariably took space in your buildings. I suppose that is very hard to control; what have you to say to that?—A. I think probably that was a part of the policy at the start, to put buildings up and they were—

Q. It is the bank's policy to put up a building which will be used by a number of concerns other than the bank in order to help the bank to carry it?—A. I might be perfectly frank and say I am responsible for that building being put up as our head office. When we looked the situation over, we looked back over a period of 15 years and found out how much additional space we had required in the 15 years prior to the time we considered that building, which was something like 300 per cent. Now, that is what we figured. We were putting up this building not for ten or fifteen years, but the next forty or fifty years, and we figured how much space we were likely to require in the future. That building was built on that principle. It was built with a tower because it gave outside rooms for everybody and rented well. That is why the building was put up. It has been filled from the start. We have not been going out canvassing, so far as I know. On no occasion did we go out and canvass for tenants. We have not cut rents. The bulk of the leases in that building are ten year leases, and were from the start; and what might go on in connection with somebody subletting some part, of course, I cannot determine.

Q. Now, what trust company is the goat for your dealings?—A. Well, I suppose you will associate me with the National Trust Company. We do not control the National Trust Company.

Q. You knew what I meant. How many directors of the National Trust Company are also directors of the Bank of Commerce?—A. I think ten directors of the Bank of Commerce are directors of the National Trust Company.

Q. Out of how many?—A. I think 34.

Q. Thirty-four in the Commerce?—A. No. There are 34 directors all told in the National Trust Company, and I think there are ten directors from the Commerce on the board of the National Trust Company. We own 1,200 shares of stock in the National Trust Company, which is 4 per cent.

Q. We?—A. The Canadian Bank of Commerce.

Q. There is a closer connection between The Canadian Bank of Commerce and the National Trust Company, at least?—A. We have some shares.

Q. A more open connection between The Canadian Bank of Commerce and the National Trust Company than there is between some of the other banks and trust companies?—A. That is our only connection, but on the other hand the National Trust company are open competitors for deposits. They take deposits. Now, Wilson does not take deposits, neither does Dodds.

Mr. Dodds: Yes, I do.

The Witness: I mean the Royal or Montreal Trust Companies.

Mr. Dodds: That has nothing to do with me.

By Mr. Power:

Q. How many shares have been issued by the National Trust?—A. About 30,000. The capital is $3,000,000. We have about 4 per cent of the capital stock.

Q. There is about 4 per cent of the capital stock held by the bank?—A. Held by the bank.

Q. Have you any idea of the amount of deposits in the National Trust? —A. What they have on deposit?

Q. Yes.—A. No, I cannot tell you, but I imagine somewhere around $20,000,000 probably; that is a guess from my point of view.

Q. They compete with you and pay a higher rate of interest?—A. They compete with us and pay a higher rate of interest.

Q. And in spite of that your relations with them are fairly close, I take it?—A. I cannot say that there are intimate relations between us. They are deposit customers of ours. I do not know that there is any business we can turn to them. They are always asking us cannot we send them some business, just as the Toronto General Trusts do.

Q. There is very little business to give to the Montreal Trust or the Royal Trust—A. Nor are we at all likely to give them much either.

Q. Why not?—A. There is no reciprocity.

Q. No, but may I ask this, why would not you give business to the Royal Trust Company?—A. Well, as a matter of fact, there is very little business we can turn over to any trust company; at the moment I cannot think of anything.

Q. The same answer.—A. No. You have to bear in mind those trust companies do an entirely different kind of business. They are trustees for estates and all sorts of things like that; we have not got anything to do with that. If I am going to draw a will, or something like that, I nominate whatever trust company I want. That is not something that the bank dominates or controls. There is a friendly relationship but there is no business relationship to amount to anything apart from that.

By the Chairman:

Q. Nor contractual?—A. No, apart from the fact that they deposit with us, and they deposit with other banks?

[Mr. S. H. Logan]

By Mr. Power:

Q. I will ask you the same question as I asked Mr. Wilson: Would it not be possible for us either in the Bank Act or the Trust Company Act, or would it be any inconvenience to the bank if either in the Bank Act or the Trust Company Act we provided that directors of trust companies should not be directors of banks; would it inconvenience your bank in any way, shape or form?—A. No, it would not make a particle of difference in a sense.

Q. In any sense?—A. I do not think it would, but I do not see why you should do it.

Q. No bank requires a trust company to be closely connected with it?—A. No question about it, as far as I have seen.

Q. It is of no use to them?—A. I cannot see it.

Q. Then I cannot for the life of me understand why this custom has grown up, that almost every bank has connected with it some trust company?—A. No, I think that is not correct.

The CHAIRMAN: The Bank of Nova Scotia has not.

Mr. POWER: Eastern Trust?

The WITNESS: I think one of their directors is a director of the National Trust Company.

The CHAIRMAN: There used to be an idea that the Bank of Nova Scotia controlled the Eastern Trust, but I do not think there is anything in that.

The WITNESS: I do not think there is anything in that at all.

By Mr. Power:

Q. And in no way connected?—A. No.

The CHAIRMAN: Mr. Black used to be the president; he is now the chairman of both.

By Mr. Power:

Q. I do not know about any of the other banks. The Banque Nationale has an affiliate, I can give it to you. Trust General du Canada?—A. I think you have to make a study of what those trust companies do, but between the banks and the trust companies there is no very intimate relationship at all. It is pure fiction.

Q. Well, Barclays Bank has the Barclay Trust Company of Canada which, I assume, is pretty closely connected?—A. To tell you the truth, I did not know that.

Q. The Provincial Bank of Canada appears to have a company called the Administration and Trust Society which seems to be closely connected with it. Would the Bank of Toronto have any such company; would the Toronto General Trust Company be in any way connected with the Bank of Toronto?—A. I would not think so.

Q. And the Dominion Bank has no affiliation with any trust company.

Mr. DAWSON (General Manager, Dominion Bank): The Dominion Bank has four of its directors on the board of the Toronto General Trust Company.

The CHAIRMAN: Is that the correct way to put it? The fact is, that certain directors of the Dominion Bank are directors of certain trust companies but the bank as such hasn't any.

Mr. POWER: I am sorry, I did not mean to express it in that way. I do not want to go into all the details that I went into with Mr. Dodds or with Sir Charles Gordon, but you, I suppose, Mr. Logan, take the same attitude that they do with respect to interlocking directorates, you think that there is nothing objectional from the public standpoint.

The WITNESS: I absolutely agree with all that has been said in that connection.

[Mr. S. H. Logan]

Q. And nothing I can say to the contrary will pursuade you to change your mind?—A. No. I think I said in my brief, that in the nine years I have been general manager of the bank I have never seen one director try to prejudice the credit of a competitor or anything of that nature.

Q. I notice in looking over the list of your directors that one of your directors—Mr. George Allen—whom I take to be Mr. Allen, ex M.P., a member here at one time and extremely popular on both sides of the House—is a director in a large number of companies. May I ask if, for instance, the G. W. Allen Farming Company does business with your bank?—A. The G. W. Allen Farming Company has been liquidated.

Q. And the Allen Securities Company?—A. That likewise has been liquidated and taken off the list.

Q. The Beaver Fire Insurance Company?—A. The Beaver Fire Insurance Company does business with the Royal Bank, as far as I know.

Q. The Beaver Lumber Company?—A. That does business with the Dominion Bank as far as I know.

Q. British American Oil Company?—A. I think Wilson has got that account too, so I am out of luck there.

Q. The Canada Cement Company?—A. The Canada Cement Company does business with the Royal, the Commerce, and the Bank of Montreal.

Q. Canada Permanent Mortgage Corporation?—A. Partly with the Bank of Montreal, the Bank of Nova Scotia, the Imperial, the Dominion and the Commerce. They split it up.

Q. Canada Permanent Trust Company?—A. Apparently that is the Bank of Montreal, the Bank of Nova Scotia, the Imperial, the Dominion and the Commerce.

Q. Dominion Bridge Company Limited?—A. That is with the Bank of Montreal and the Royal; they secured all that.

Q. Great West Life Assurance Society?—A. The Bank of Montreal, the Royal, the Commerce, the Imperial and the Dominion. Now, there may be others, and you will understand it may not be complete.

Q. Guarantee Company of North America?—A. The Bank of Montreal, the Commerce, and the Dominion.

Q. A borrowing customer?—A. Depositing.

Q. Home Investment and Savings Association?—A. Apparently they do business with the Bank of Montreal.

Q. Hudsons Bay Company?—A. They do business with the Bank of Montreal and the Commerce.

Q. Borrowing?—A. Yes, occasionally they borrow from the Bank of Montreal and the Commerce.

Mr. DODDS: A very good account too.

By Mr. Power:

Q. Lake of Woods Milling Company?—A. That account is divided between the Commerce and the Bank of Toronto. That is a regular flour milling company, a borrowing account.

Q. National Trust Company?—A. The Royal, the Commerce, Bank of Nova Scotia and the Dominion, and perhaps others.

Q. Not much business with the others?—A. Well no.

Q. Northern Mortgage Company?—A. They bank with the Royal.

Q. Northern Trusts Company?—A. That is Winnipeg; they bank with the Royal.

Q. Patriotic Assurance Company Limited?—A. They apparently bank with the Royal also.

Q. Sun Insurance Company?—A. That is with the Bank of Montreal and the Royal.

[Mr. S. H. Logan]

Q. And Massey-Harris?—A. Massey-Harris, that is with us.

Q. Borrowing?—A. Borrowing customers, and have been important borrowing customers for many years.

Q. I do not think I can do much with Mr. Allen's account.—A. All right, I have got the whole list here, I am glad to go over them.

Q. You appear to have more directors than most of the other banks, have you not?—A. We have thirty-four.

Q. The Bank of Montreal has eighteen and the Royal has twenty-five, and the National Trust thirty-four; that is another coincidence.—A. Yes, it just happens.

Q. I suppose you have more directors because you wish to expand your business all over Canada more perhaps than the others?—A. No, our directors' list went up when we took over the Standard Bank.

Q. That is accounted for by the fact that you took over the Standard Bank?—A. The Bank of Hamilton and the Standard Bank and that ran our list up. What we are doing gradually is to let our list run down.

Q. I suppose most of your directors reside in the immediate vicinity of Toronto for the same reason as given by Sir Charles Gordon, that you prefer to have your directors at hand.—A. We have one director in New York, and one in London; we have three in Winnipeg, three in Hamilton; one in Chicago; we have also one in Vancouver and one in Ottawa, and the rest are in Toronto.

Q. You find it more convenient?—A. We find it convenient to have directors in outside places because they give representation to the various parts of Canada.

Mr. Dodds: I have a list of bank directors resident all over the country, if you would like to have it to put in the record.

The Chairman: I think perhaps it would be interesting to have it in the record.

No. of Bank Directors and Their Location

Toronto	56	Oakville	1
Montreal	45	Fort Coulonge	1
Winnipeg	12	Buckingham	1
Vancouver	5	Saint John	2
Ottawa	5	St. Catharines	1
Calgary	2	Quebec	7
Halifax	8	Sherbrooke	1
Hamilton	6	Chicago	1
Oshawa	1	New York	1
Brantford	1	London, Eng.	4
Galt	1	Florence, Italy	1
North Bay	1		

By Mr. Power:

Q. But the directors who reside at outside points are not of any very great use in determining the general policy of the bank?—A. They are valuable in this way: Supposing something comes up at Winnipeg, our superintendent there has the benefit of conferring with them getting their advice, the same thing at any other point where there may be a director.

Q. I make the same suggestion to you that I made to Mr. Dodds, that you could achieve very much the same result by consulting prominent men in whatever trade or industry you happened to be in at the moment, and you would get just as sound and good advice, would you not?—A. Yes, but they would not have the same responsibility, would they?

[Mr. S. H. Logan]

Q. Mr. Wilson points out that you could not discuss confidential things with them, but I have no doubt that men of standing in the community would be only too glad to give you the best of their advice confidentially on any matter which came up.—A. Yes, but they would not have the same right to discuss it, as one of our own directors would have.

The CHAIRMAN: Nor the obligation.

Mr. POWER: No, nor the obligation.

By Mr. Power:

Q. Would the efficiency of the banks be in any way impaired if all the directors were what you might call professional bankers instead of industrialists? By professional bankers I mean men like Mr. Dodds?—A. Where would you get professional bankers to be directors of all banks.

Q. Well, from your staff?—A. You mean our own staff?

Q. Yes, that is to say, making banking a profession?—A. Yes, but I think the system as it is now is better than that, because you can draw on these men who are important factors in their community, and you put them on the board because they are going to assist in the developing of our business.

Q. Well, in these days we are constantly being told that governments, and countries and institutions can be run by experts better than by anybody else. Why should not the banks be better managed by experts?—A. We pay men to run the institutions, there are paid officers for that, but if you have got a competent group of men on the board of directors it is a very valuable asset to the bank.

Q. But your branch managers are men who through their experience have been connected with almost every branch of industry and with every commercial activity in Canada. Do you not think that they would furnish you with all the advice you required?—A. No, I do not think that would be feasible. We draw on these directors for the valuable experience they have. The question was asked: How do you invite someone to be a director? Three or four years ago I wanted someone to be a director from the mining business and I went to J. P. Bickell and I said "I want you to come over and be a director of our bank" that is because I wanted someone from that particular line of business; then we wanted someone from the grain business, and we wanted someone from the lumber business, and so on throughout the list. These men all have a valuable fund of information.

Q. I put it to you, a good branch manager who had had experience up north in the mining district—and this is without any disparity whatever to Mr. Bickell whom I have not the pleasure of knowing—would be just as useful to you in giving his advice as perhaps Mr. Bickell would?—A. No, for you would have paid officers, you would have your own men.

Q. Yes, every man in the bank would be a banker and not an industrialist, he would have no other axe to grind. Mr. Wilson points out that I would have a one man bank?—A. Well yes, for men from your own staff could not control the general manager. If the general manager is on the job then one man would be dominating the whole situation.

Q. Unless you could have perhaps a similar number of directors and pay them reasonable salaries to be directors?—A. Yes, but they would all be under whoever was the general manager of the institution and they would all be paid men. They could not turn around to me and dictate to me what I should do.

By Mr. Coote:

Q. Why not, Mr. Logan?—A. How could they? They would be subordinate officers on salary.

[Mr. S. H. Logan]

Hon. Mr. RHODES: The board of directors must always be above the management.

The WITNESS: It does not make any difference whether the board of directors get any compensation or not. They are the men who dictate to the officers and the whole staff of the bank as to what they shall do.

Mr. COOTE: In the Bank of Montreal we did not get that out this afternoon.

By Mr. Power:

Q. I am not trying to develop any Douglas theory, or anything of that sort, but it does seem to me that that is capable of being worked out?—A. I do not see how it could be.

Q. Where you made these directors independent of the general manager by taking them out of the employ of the bank, just simply promoting them from manager or general manager to the directorate and have a small board of directors?—A. Well, if you take half a dozen of the brightest men in our institution, or any other institution, could they run that institution? There isn't any question in the world about it, and they would do a fine job of it, but all these men would be subordinate to one man, that is to the operating officer. Now then, if you take these half a dozen men and let us run the show we would run it all right.

Q. Yes, if we started all over again, if to-morrow all directors of banks who were not practical professional bankers were to be removed from office as directors of the banks, we are faced with the situation of having to find new directors and we are told to find them from amongst the ranks of our own employees, could it be done?—A. It could be done if they were put over the head of the general manager and they were all given equal compensation and put on an equal standing. However, nothing like that is feasible, but in theory it could be done, there is no question about that.

Q. Would the bank be efficiently managed?—A. The bank would be efficiently managed, but I do not think that would be likely to happen.

Q. Would the public get service?—A. Yes, the public would get service all right.

The CHAIRMAN: How about the bank's contact with new business?

Mr. DODDS: You would have six general managers and they would all fight.

Mr. POWER: I think it has been fairly well shown to-day that the shareholders have very little to do with the choice of directors.

The CHAIRMAN: I think that is true. If we are through, Mr. Logan would like to make a statement.

The WITNESS: In connection with pensions, the other day I was speaking from memory and some of the facts were not in accordance with what the rules of the pension fund are, and I promised to supply the information. I have it here.

The CHAIRMAN: It can go into the record.

THE CANADIAN BANK OF COMMERCE

Pension Fund

The Pension Fund of the Bank was organized in 1894, and up to the year 1920 the annual contributions by staff members of the Fund were at the rate of 4 per cent of their salaries and by the Bank $81 for each member.

The rate of contribution was set at a low figure so that it would not bear hardly on the staff, but in order that the Fund should be built up each member on joining entered into a contract by which it was agreed that no refund of contributions should be made.

[Mr. S. H. Logan]

In 1920, owing to the very rapid increase in salaries during the War years, an increase in the rate of contributions was found to be necessary to keep the fund actuarially sound.

The percentage rate of staff contributions was, therefore, raised from 4 per cent to 5 per cent of salaries, and the Bank increased its regular annual contribution to a sum equal to that paid by the members. In addition the Bank made a special contribution in that year of a substantial sum and undertook to add to the Fund a further annual amount of $45,000 for thirty years.

Notwithstanding these special contributions by the Bank it was still felt to be unwise from an actuarial standpoint to change the contract with respect to the refund of staff contributions.

In July, 1926, however, a general review of the situation indicated that a modification in the contract might properly be made and a rebate of 50 per cent of his contributions to any member retiring before pension age was approved provided he had been under the age of twenty-five on the 1st December, 1920. While this arrangement was not of any benefit to the older contributors the Bank coincidentally inaugurated the practice of granting to such contributors, if they left the service before pension age, a retiring allowance of a sum at least equal to half the amount of the payments they had made to the Fund.

In 1929 the Bank undertook to increase its special annual payments by a further substantial sum for a period of years.

The Fund as it stood in May, 1933, is made up as follows, contributions being shown in total since its inception:

By members of the staff	$ 3,900,000
By the Bank	5,800,000
Balance of Pension Funds of absorbed banks	2,100,000
Accumulated net earnings less payments to pensioners and refunds	3,900,000
	$15,700,000

Last year the Bank paid out in pension funds and insurance benefits approximately $500,000. There are at the present time 3,165 members of the Fund and 343 pensioners of whom 140 are widows.

THE CANADIAN BANK OF COMMERCE PENSION FUND

Established 1894

Members	3,165	Staff Pensioners	202
		Widows	140
		Children	1
			343

Contributions—

1910-1920—

From age 21 to 24 .. .. 2% of salary

From age 25 .. .. 4% of salary

1920 onwards—

From age 21 to 24 .. .. 2% of salary

From age 25 .. .. 5% of salary

Pensions—

1/50 of salary for each year up to 35 years' service.

Pension age: 60. Maximum pension: $5,000.

A widow (if not more than 10 years younger than her husband) and orphans receive one-half pension. The pension is scaled downwards for greater disparity of age.

Insurance—

For bachelors and childless widowers—Commencing on entry at $100 for first year's service and increasing by $50 for each year up to age of sixty. Lapses on receipt of pension.

Refunds—

In accordance with terms of contract no refunds of premiums were made before July, 1926.

Since July, 1926, one-half the contributor's premiums have been refunded on retirement, if he was under 25 in December, 1920.

[Mr. S. H. Logan]

The CHAIRMAN: Mr. Power asked for the attendance of Sir Herbert Holt. We have communicated with Sir Herbert Holt, and while he states he is perfectly willing to come, his physicians advise that they do not think he should come to Ottawa. I also have a letter from his physicians the substance of which is that Sir Herbert is perfectly willing to give evidence before a sub-committee but they do not think it is safe for him to come to Ottawa in view of his health. Now, would it be open to a sub-committee to go down to Montreal and take his evidence, or do you require it? The matter is entirely up to the committee, and you do not have to decide now.

Mr. POWER: It can stand in the meantime, Mr. Chairman.

The CHAIRMAN: Then gentlemen, we will adjourn until Tuesday at 11 o'clock when we will take up Bill 18, An Act respecting Banks and Banking.

Mr. COOTE: Are you discharging Mr. Logan?

The CHAIRMAN: Unless you want to ask him something more.

Mr. COOTE: I hate to at ten minutes to eleven.

The CHAIRMAN: Are we going to ask this man to come back here again? I do not think it is quite fair, but if it is something concrete he will be good enough to stay and give it to you.

Mr. COOTE: I would like a little information. I would like to ask Mr. Logan something about the Dominion Realty Company and the Bank of Commerce, and I will try to make it just as brief as possible.

By Mr. Coote:

Q. The value of bank premises owned by the bank is shown in the statement which I have here, which is a recent one, dated February 28th, Mr. Logan, at $14,869,000. I wonder if you could tell us the value of bank premises owned by the Dominion Realty Company?—A. Yes, that all appears on the back of the annual statement.

Q. I am just anxious to get at the total of these two, because I understand to get the value of all the bank premises we would have to have that.—A. I think it is about $27,000,000.

Q. That is the Dominion Realty Company?—A. Something like that.

Q. That would be a total of $41,000,000 in bank premises then?—A. That would be approximately right.

Q. Well, don't you think that is rather large, Mr. Logan, when you consider the total capital of the bank is $30,000,000?—A. You asked me about the total value of the Dominion Realty Company.

Q. Yes, the total money invested in bank buildings, in other words?—A. That is correct, it would be about $40,000,000.

Q. Is there some exceptional circumstances to explain that very heavy investment in bank premises?—A. That represents all our branches throughout the country, and we have about eight hundred of them. And then, of course, when we built the head office building that was an important expenditure.

Q. Well, I do not know whether you would care to tell us how much is in the Toronto office building.—A. The Toronto building cost approximately $8,000,000.

Q. But compared with any other bank I think I am safe in saying that the amount invested in bank premises seems extremely large in connection with the Bank of Commerce, and I was trying to find out if there was any special reason for that?—A. No, just the number of branches we have.

[Mr. S. H. Logan]

Mr. DODDS: Mr. Logan, you have not got $28,000,000 in the Dominion Realty Company of your money.

The WITNESS: Mr. Coote asked for the total value of bank premises.

Mr. DODDS: But Mr. Coote is under the impression that the Bank of Commerce have over $40,000,000 locked up.

The WITNESS: Oh no, that is not right.

By Mr. Coote:

Q. I am trying to find out why it is that the Canadian Bank of Commerce have buildings costing $41,000,000 to house their various branches.—A. The Dominion Realty Company has sold to the public about $12,000,000 in bonds against its $27,000,000 in property. The bank's equity is, therefore, about $15,000,000 which we carry in the bank's books at $3,000,000.

The Balance Sheet value of our premises owned direct or through the Realty Company is, therefore, some $18,000,000.

Q. I have in mind that no other bank has anything like a similar amount to house the bank's offices, and I was trying to find out if there was any particular reason.—A. I should not have thought ours was very much out of line with the others.

Q. Well, they say comparisons are sometimes invidious so we will not make a comparison, I will leave you to do that. But you know, Mr. Logan, the banks are prohibited from owning real estate, and do you think it is proper policy for banks to put up office buildings?—A. That is, buildings just to rent.

Q. Well, perhaps the major part of the building used for office purposes to rent.—A. The only case where we did it was the head office building, and in doing that we were thinking of the future. We thought Canada was going to be a wonderful country and we anticipated what we thought was going to materialize, and we still think it is well.

Q. Could you explain or tell us just in a few words the connection between the Bank of Commerce and the Canada Life Assurance Company and the Dominion Realty Company, for instance?—A. Well, there is no connection at all between the Canada Life Assurance Company and the Dominion Realty Company or the Bank of Commerce.

Q. Well, is it one reason that banks do seem to like this business of interlocking directorates, so that they can hold the securities of each other?—A. Securities in what way?

Q. For instance, I have just looked at the insurance report.—A. Bonds of the Dominion Realty may be held by the Canada Life Assurance Company, but that is only as an investment.

Q. The Canada Life owns $2,000,000 of Dominion Realty Company.—A. They bought those bonds because they thought they were a first class investment.

Q. They hold 2,500 shares, I think, of Bank of Commerce stock?—A. Yes.

Q. I was wondering whether they make that a common practice of holding each others stocks?—A. You will find all the banks in Canada holding bank stocks.

Q. And is there any particular connection between the Imperial Life and the Bank of Commerce?—A. No. Sir John Aird is on the board of directors, and so are J. P. Bickell, G. A. Morrow and Donat Raymond. We do not hold any shares in the Imperial Life.

Q. I see they hold also Dominion Realty Company bonds and Bank of Commerce stock?—A. As an investment.

Q. I was wondering if that was one reason why they seem to like to have those interlocking directorates. I will not trouble you for the exact number of shares. Just another question then with regard to the number of directors. I suppose the more directors you have the more it costs the bank?—A. Yes, but the ordinary directors fees, I think, are $1,275 apiece, or something like that.

[Mr. S. H. Logan]

Q. So that the fact that you have thirty-four directors does not amount to a very great deal?—A. I mean to say, the ordinary director's fee was $1,500 and it was cut by 15 per cent down to $1,275.

Mr. COOTE: Well, seeing it is 11 o'clock, Mr. Logan, I will not pursue the questions further.

The CHAIRMAN: We will adjourn now till Tuesday at 11 o'clock.

The committee adjourned at 11 p.m. to resume on Tuesday, 24th April, at 11 a.m.

HOUSE OF COMMONS,

April 24, 1934.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Mr. R. B. Hanson in the Chair.

The CHAIRMAN: Gentlemen, I think I see a quorum. The minister has some notices of motion that he desires to file.

Hon. Mr. RHODES: I have four; three amendments to the Quebec Savings Act and one to Bill No. 18.

The CHAIRMAN: By appointment, we arranged to hear representatives of the Institutes of Chartered Accountants. They are here, and I suggest we hear their representations before we take up either routine or any other matter.

Hon. Mr. MACKENZIE: I thought it was understood that we were to discuss another matter this morning.

The CHAIRMAN: I do not see the other members of the sub-committee here. Perhaps we had better allow the matter in which you are interested to stand.

Hon. Mr. MACKENZIE: I might be called out myself this morning.

The CHAIRMAN: The matter will not be discussed in your absence, and I shall notify you when it is likely to be brought up.

Lt.-Col. Gordon, president, Institute of Chartered Accountants of Ontario is here and wishes to be heard, and I think we had better hear him now.

Lt.-Col. H. D. LOCKHART GORDON, called.

The WITNESS: Mr. Chairman and gentlemen, I wanted to speak to you about subsection (17) of section 55 of the Bill respecting Banks and Banking.

The CHAIRMAN: Page 28 of the bill.

The WITNESS: This section makes it an offence if the auditor of a bank does any work for the bank or if they are recommended by the bank. I shall read you the section:

> A person appointed under this section to audit the affairs of a bank shall not, during the term for which such person is appointed, either by himself or by the firm of which he is a member or by any other member of such firm, accept any retainer or undertake any employment on behalf of or at the instance of such bank or any officer thereof, whether at the expense of the bank or not, other than that of auditor hereunder; and failure to comply with the provisions of this subsection shall be an offence against this act.

The Institutes of Chartered Accountants of Quebec and Ontario have been in existence for over fifty years and comprise over 1,000 members. These two societies were represented before the Banking Committee, in 1923, when the Bank Act was previously revised. The accountants then asked that subsection 17 of section 55 should be cancelled. Our Societies have again taken up the matter

[Mr. H. D. L. Gordon.]

and the Councils of these two Institutes have sent us to urge that the section should now be cancelled, or amended, on the following grounds:—

1. The usefulness of a Bank auditor is very much curtailed by this section in that—

(*a*) He is the most suitable and natural person to be called in by a bank to examine the affairs of a corporation or person wishing to borrow from it or who had borrowed money from it;

(*b*) He is the most natural person to advise the bank in the case of a doubtful debtor;

(*c*) As auditor of the bank he would be in a better position to value the loans of the bank and to arrive at its true position if he had knowledge of and had investigated some of the larger or doubtful accounts.

2. No such section appears in the English Companies Act under which the banks are incorporated in England, or in any other Dominion or provincial act.

3. Professional integrity and honesty—

(*a*) The clause is a direct reflection on the integrity and honesty of the members of the profession;

(*b*) Places the auditor of a bank in a very embarrassing position in that he may innocently accept an appointment not knowing that an officer of the bank had recommended or suggested his name and so run counter to the provisions of this section which says the auditor shall not accept any employment or retainer at the instance of the bank or any officer thereof.

May I give you an example of how the section prevents the auditor of a bank being called in to help the bank—and therefore the shareholders and depositors of the bank—and so is prevented from obtaining valuable information which would help him in arriving at the true position of the bank:

"A", a manufacturer or merchant, is a customer of the bank and as such is substantially indebted to it. He is not making any progress, in fact he has gone behind year after year. The bank becomes somewhat disturbed about the account and the manager asks "A" to call upon him to discuss the situation. After talking the matter over, the bank manager thinks that economies might be effected—certain non paying departments eliminated, and other matters affecting the management of the business looked into. He suggests to "A" that he had better see the bank's auditor, " B," explain his troubles to him and ask him to make a report showing the true position of the business and make such recommendations as might have the result of turning the business from a losing proposition into a profitable one. Acting on the Bank Manager's suggestion, "A" then consults "B" but "B", knowing he cannot "undertake any employment on behalf of or at the instance of such bank or any officer thereof whether at the expense of the bank or not" must decline to act, with the result that when he comes to audit the bank's affairs he does not have that special knowledge of "A's" account that he otherwise would have had, and therefore cannot decide whether a reserve should be set up against this debt or not—or if he does set up a reserve, the amount of such reserve He has also been debarred from working for "A".

It is a most unusual provision in an act, and one for which we have been unable to find any precedent and which, if allowed to remain on the statutes for another ten years, might be very readily copied into the Trust and Loan Companies Act, the Insurance Act, or even into the Companies Act, with very far reaching results.

In the strict interpretation of the clause, an auditor might, through inadvertence, accept employment which would render him guilty of an offence under the Act.

[Mr. H. D. L. Gordon]

It is a direct reflection on the integrity and honesty of the profession. In this connection no suggestion has ever been made, nor has any auditor been accused, of being bribed or influenced by the management or directors.

In the case of the banks that failed, the difficulty was not that the auditors were not honest but that they failed to detect the bad loans and to report on them.

We quite appreciate that an auditor of a bank should not act for a customer of the bank where conflicting interests might arise, but after all chartered accountants are members of a profession which has a high ethical standard. They are educated men and it seems unreasonable to say to them that if they are auditors of a bank they cannot render other professional services to that bank which would have the result of helping the auditor to do his work as auditor of the bank through the knowledge which he thus obtained.

For these reasons we would earnestly request this committee to cancel this subsection, or modify it in some way, so that the reflection on the honesty and integrity of the profession may be removed.

The CHAIRMAN: Gentlemen, have you any questions to ask Col. Gordon on this point?

By Mr. Geary:

Q. I should like to ask Col. Gordon whom those associations of Ontario and Quebec represent? Are the institutes representative of the whole profession?—A. Yes; the membership of the Ontario society is 612, and of the Quebec society, 403. That makes a total of 1,015, or 62 per cent of the profession. Other institutes, ten years ago, joined us in this matter, but they are not so much interested, because there are no head offices of banks in the other provinces.

Q. Your association is unanimous in this request?—A. The Council have instructed us to come before you.

Q. Outside of Ontario and Quebec, have you other provincial societies similar to this?—A. Each province has an association. As I said before, ten years ago they joined us in this application. They are not officially joining us to-day, because they are not interested to the same extent as we are, because there are no head offices of banks in those provinces.

Q. Do you know they are in sympathy with your views?—A. I am sure they are.

By Hon. Mr. Mackenzie (Vancouver Centre):

Q. When was this section inserted, in 1923?—A. Ten years ago, at the last revision of the Bank Act.

Q. I wonder if any members of the 1923 Banking Committee can very quickly give us the reasons why this subsection was inserted?

The CHAIRMAN: I think I can. I remember it very distinctly. It was put in the Act by Mr. Fielding, on the advice of Mr. George E. Edwards, who was an auditor, I understand, of high standing. He was employed to investigate the Merchants' Bank. If you will look at the proceedings of the committee, in the blue book compiled in that year, at pages 94 and 95, you will see that it epitomizes, in brief space, the arguments for and against; and, as I recollect, the underlying reason was this, that the audit contemplated was a shareholders' audit as distinct from the management audit.

Q. Is that a fair statement of the Minister's position at that time?

The WITNESS: Yes.

The CHAIRMAN: I am not trying to make any argument.

By Mr. Jacobs:

Q. May I ask Col. Gordon if this will always correct any abuses which had existed before that time?—A. Sir, you remember before the revision of the last Bank act, the Merchants Bank had just failed, and the Home Bank had

just failed. This amendment of 1923 contemplated a much stricter audit. Two auditors were appointed instead of one, and one of those two could stay as the auditor of the bank for quite a number of years, but the other one had to revolve; a new man had to be appointed; so you have a very strong protection there. There was no question of one man being influenced, but the question of two men being influenced. And it is simply a question of whether a member in good standing in my profession can be influenced to do something wrong in connection with the bank by that bank. Auditors are appointed by the shareholders and it is in the interests of the shareholders that they should use their own men to look after their own money. The shareholders, under this section, are prevented from using their own auditor to look into their own doubtful accounts.

By Hon. Mr. Rhodes:

Q. I should like to ask Col. Gordon this question, premising it by stating it is assumed the standing of the auditor is of the highest, and his integrity is not in question at all. Assuming that this clause (17) is in the Bill to afford the fullest protection to shareholders, in having the right to select their own auditors, what does he say in answer to the suggestion that if those same auditors are employed by the bank, there may arise a conflict of interest which would be detrimental to the interest of the shareholders.

Hon. Mr. MACKENZIE: That is the whole point.

The WITNESS: If I understand your question correctly, Mr. Rhodes, I think that an auditor, going in to audit accounts, is in the position to see the accounts are correct, if he is allowed to do the work by the bank; but he would be in a much better position if he was familiar with the account, and I do not think that the question of bribing or anything of that sort could enter into it.

Q. I was not suggesting he could be bribed; I was just putting to you the question of a conflict of interest arising?—A. I think his interest is along the lines of getting the right statement. There might be a conflict of interest between the customer and the bank, and then I think he would not act.

By Mr. McGibbon:

Q. Is it not a fact that to-day large companies are purposely changing their auditors every year?—A. Very, very seldom. I have been an auditor for some companies for 35 years, 25 years, and 20 years; and I would be very shocked if they changed me and asked somebody else to do the work.

Q. As a matter of fact, some companies are doing that?—A. I do not know any of my clients who have changed.

Q. When we passed the Railway Act, a few weeks ago, we deliberately put into the act a clause to the effect that the auditors should be changed periodically. —A. I do not know that, sir. I know the auditors were appointed this year.

Mr. GEARY: There is a provision for change here. The bank auditors are changed.

Mr. McGIBBON: There is no reflection on the auditors.

The WITNESS: Bank auditors have to be changed under this act. Under this act bank auditors have to be changed every two years; one firm can go on for an indefinite period, but the other has to be changed every two years.

Hon. Mr. RHODES: I have been summoned to attend a meeting of Council, and I must leave. Some question has been raised as to the attitude of the department with respect to this section. May I say, in the first place, I do not subscribe to the view expressed by Col. Gordon that the integrity of the chartered accountants is called into question by this provision. That same attitude might be taken by the banks with respect to restrictive measures which are imposed upon them now; so I think we can dismiss that. The sole question is as to whether this section, as it presently appears in the Bank Act, effects the pur-

[Mr. H. D. L. Gordon]

poses for which it was placed there, namely to provide as much protection as can be afforded by legislative means. As far as I am concerned, I have an open mind on the question. I do not know that it has created any hardship, during the past ten years, upon the accounting profession; but I certainly do not subscribe to the point of view that it has called into question their integrity. So far as the department is concerned, it is quite content to leave it to the judgment of the committee, as to whether public interest would be better served by retaining the section as it presently stands, or revising, or deleting it.

By Mr. Spencer:

Q. I should like to ask a question of Col. Gordon. If my memory serves me rightly, I believe the last bank charters were granted before the Home Bank failed, and the point I want to touch upon is whether the auditors of the Home Bank were members of your profession?—A. No, sir; the auditor of the Home Bank was a bookkeeper really.

By Mr. Stanley:

Q. What is that?—A. He was a bookkeeper, not an accountant.

Mr. Tompkins (Inspector General of Banks): The answer to the question is this, Mr. Chairman: The Home Bank failed in August and the provisions of this act with respect to auditing did not come into effect until October; and it was by reason of this fact it just simply could not continue. That was one of the main reasons at least.

By Hon. Mr. Euler:

Q. May I ask the witness whether his objection is based on the fact that this clause excludes the auditors from an additional source of employment, if you like, or is it because he regards it as a reflection upon their integrity? which of the two have you in mind, or have you both in mind?—A. Primarily I am here representing my society, because we think it is a reflection upon our honesty. Secondly, we think that it prevents an auditor having the opportunity to do the best work he should for the shareholders of the bank.

Q. Would you elaborate upon that latter point?—A. If the auditors of a bank can be employed by the bank to look into those doubtful accounts, then they have a knowledge of those doubtful accounts; they know the amount of reserve that has to be put up for loans much more easily.

By Mr. Coote:

Q. Cannot the auditor do that if he wishes?—A. No; he cannot go outside the bank, you see.

Q. Surely, if he is examining the bank from the standpoint of the safety of loans, he can examine into any loan he considers doubtful?—A. Not outside the bank.

By Mr. MacMillan (Saskatoon):

Q. Would that introduce much extra cost?—A. Yes; it is a very expensive thing to investigate a big concern.

Q. That would be a continuous investigation?—A. No,—it might be. It would be only done in the case of a doubtful account. If the bank had a doubtful account of a million dollars, or something like that, they very frequently ask my firm and other firms to look into the business and see if it is being run correctly.

Q. I suppose they have the odd one?—A. I have heard it said so.

By Hon. Mr. Euler:

Q. Would you say this clause really weakens your usefulness as an auditor of the bank?—A. Yes, no doubt about it.

[Mr. H. D. L. Gordon]

By Mr. Geary:

Q. As I understand it, if the bank is concerned about an account, the bank could not have its auditor look into that account?—A. That is the whole point.

Q. Under this section?—A. Yes.

The CHAIRMAN: It is expressly forbidden.

The WITNESS: If the auditor of a bank accepts that appointment, he is liable; he has committed an offence against this act.

By Hon. Mr. Euler:

Q. I think that is your strongest argument. I do not think it is a reflection on you at all, because we all know a man who manages a business has under his control a large quantity of valuable documents, and large sums of money, and the owner of the business puts him under bond as a business precaution, not because he thinks he is going to steal. It is no reflection at all. I think the committee might consider the other reason you gave. I think that is the only important feature of it?—A. Yes.

The CHAIRMAN: There are other gentlemen here, and if you have no further questions to ask Col. Gordon, I shall call on them.

By Mr. Duff:

Q. I should like to ask one question in order to get the record straight. I understood Col. Gordon to say the reason why the accountants in other provinces have not joined with him in his protest is that all the head offices of the banks were in the provinces of Quebec and Ontario, and that there was no society of accountants in the other provinces?—A. No; there are societies in each province.

Q. Did I understand you to say the head offices of all the banks were in Ontario and Quebec?—A. Yes.

Q. May I correct you by saying the head office of the Bank of Nova Scotia is in Halifax, Nova Scotia?—A. I apologize.

By Mr. Spencer:

Q. I should like to ask Col. Gordon if the auditors of the Merchants Bank were members of an Association of Accountants?—A. Yes, sir, they were. Of course, they were just one firm. The bank had only one firm. It was not a question of the auditor being influenced by the management. He simply did not find out these things, which he might have, if he had been employed by the bank to go into them.

By the Chairman:

Q. What has been the effect of the practice of establishing two auditors, each from an independent firm, to work together; how has it worked out as compared with the previous practice where one firm did all the work?—A. I should prefer it if you would ask Mr. Young that, because he has experience along that line with Price, Waterhouse and Company, who audit a number of banks.

Mr. STANLEY: Mr. Chairman, there is a little broader side to this question. I have always looked upon shareholders, probably directly, but certainly indirectly, as the men whom you might term the representatives of the depositors. They certainly have an interest themselves, but they have a broader interest, and stand as a very considerable protection to the depositors of the bank. Now, if we look upon that clause from the viewpoint of safety or protection first for the shareholders and then, wider still, for the depositors, there is a real reason

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why every possible protection should be extended by legislative means. There is no reflection on anyone. As a matter of legislation, when you are drafting the act I would think it would be a good procedure to include this section.

The WITNESS: Sir, I think my argument as to a knowledge of affairs of the bank to protect the shareholders is still more important, as far as depositors are concerned. If the auditor is barred from getting this extra information, he is not in a position to know all about the statement, and he might therefore not be able to protect the depositors to the fullest extent.

Mr. MACMILLAN (*Saskatoon*): I suppose the depositor would determine first what account he sould audit; is that it?

The CHAIRMAN: Not the depositor.

Mr. MACMILLAN (*Saskatoon*): I mean the auditor would determine.

The WITNESS: If the change were made according to our representations, the management would determine as to what accounts of the bank should be audited on behalf of the shareholders.

The CHAIRMAN: Do you not think it would be the management who would determine, in that case?

Mr. MCGIBBON: What injustice has this section raised?

The CHAIRMAN: If you ask me, I think the first was this: that they think it was a reflection on their integrity. I am bound to say Parliament never thought that, nor did the minister of the day think it.

Mr. MCGIBBON: There is nothing in that.

The CHAIRMAN: But there is a great deal in the second objection, as I gather it from Col. Gordon, namely that they are in a better position to audit a customer's account by reason of the fact that they are the bank's auditors; That is their second point, as I understand it.

Hon. Mr. EULER: Could we get an opinion from the Inspector General of Banks on this point?

The CHAIRMAN: I think we could. I was going to suggest that we conclude our questioning of Col. Gordon and hear the other representatives, and then we can ask Mr. Tompkins to give us his opinion. I have an opinion here of another gentleman who is interested, and I am going to give it to you later.

Mr. JACOBS: If you read this section, it may throw a little light on it. Sometimes the reading of a thing gives us some information.

> A person appointed under this section to audit the affairs of a bank shall not, during the term for which such person is appointed, either by himself or by the firm of which he is a member, or by any other member of such firm, accept any retainer or undertake any employment on behalf of or at the instance of such bank or any officer thereof, whether at the expense of the bank or not, other than that of auditor hereunder, and failure to comply with the provisions of this subsection shall be an offense against this act.

That is to say, he must be paid under this section to audit the affairs of the bank, and it does not apply to other auditors. The only person affected is the person to be named by the bank to audit its affairs. They want to have him in a position where he is entirely free from the influence of the bank, but there is nothing to prevent the bank from employing an auditor to look into the affairs of an individual customer. Is not that the law.

The CHAIRMAN: I think you have practically stated it.

Mr. JACOBS: I do not see that there is very much restriction on the auditor because he has to act in a judicial capacity; he must not be influenced by any person, and if he is employed as an auditor for the bank for a two year term,

for which he gets a very substantial retainer I understand, I do not think that he can complain on the financial score. Other auditors are not in the same comfortable position that bank auditors are in, that is to say, they are not in the splendid position that the bank auditors are in through having an opportunity to earn an honest penny.

The CHAIRMAN: I hope members of the committee have read fully section 55. Subsection 1 provides who shall be qualified to audit. Subsection 2 provides that a list or lists shall be furnished to the minister, and also to the association, and then the minister may, in certains instances, select the auditors; that is subsection 3; they are remunerated by the directors acting on the part of the shareholders; that is subsection 7; subsection 8 defines the powers and rights of auditors; subsection 9, procedure and scope of audit; subsection 10, duty with respect to directors; subsection 12, report of auditors; subsection 14, attached to annual statement; subsection 15 is the audit and report on further statements; subsection 15 is that the auditor's report shall be attached to statement; and subsection 17 is a prohibitive section under this statute, and you will observe that that was put in there for the purpose that has been suggested, namely, that there may be an independent shareholders audit.

Mr. JACOBS: Even an auditor cannot serve God and Mammon at the same time.

Mr. MACMILLAN (*Saskatoon*): Mr. Chairman, I asked who would determine as to what accounts the auditor might audit on behalf of the shareholders and you said the management.

The CHAIRMAN: Well perhaps I misapprehended your question. What accounts do you refer to, customers accounts or the bank's own accounts?

Mr. MACMILLAN: Customers accounts.

The CHAIRMAN: I would think, if that were done, it would be the management, certainly not the shareholders.

Mr. MACMILLAN: How can that be any protection to the shareholders?

The CHAIRMAN: That is the point at issue.

Mr. MACMILLAN: That is it exactly.

Mr. GEARY: I understand Colonel Gordon to say that he is not in a position of being a bank auditor but that Mr. Young is, I mean, that Clarkson, Gordon & Dilworth are not.

The CHAIRMAN: They were in 1923. Mr. Clarkson gave his opinion on this section very freely then.

Mr. GEARY: Mr. Young is in a position of being a bank auditor and perhaps he could answer a good many questions.

The CHAIRMAN: I am informed by Colonel Gordon, that after Mr. Clarkson made his statement they gave up all their bank audits, or at least when this section came into force.

The WITNESS: We were auditors for banks before this section was passed, and as soon as it was passed we felt that we could not carry on and we resigned, because we do work for all the chartered banks and it was such a delicate position, and if under that Act we did do any more work we might find we were committing an offence.

By the Chairman:

Q. And it was as a matter of propriety that you resigned?—A. Yes.

By Mr. Jacobs:

Q. You can only act as auditors for one bank can you not?—A. No.

Q. You can act for two banks?—A. Yes.

[Mr. H. D. L. Gordon]

Q. I understood you could only act for one bank.—A. Any auditor can act for the whole nine banks.

Q. That is, one firm can act for all the banks as their auditors?—A. Yes.

Mr. JACOBS: I did not know that.

By Hon. Mr. Mackenzie (Vancouver Centre):

Q. Does that ever happen in practice may I ask?—A. No.

Hon. Mr. MACKENZIE: The banks are too wise for that.

The CHAIRMAN: Have you any more questions to ask Colonel Gordon? If you have no more questions to ask Colonel Gordon we will call on Mr. David Young, of Price, Waterhouse & Company.

Witness retired.

DAVID YOUNG (President, Quebec Society of Chartered Accountants), called.

By the Chairman:

Q. You might just state your qualifications, Mr. Young.—A. I am here representing the society of chartered accountants in the Province of Quebec. The society in Ontario and ourselves have presented, through Colonel Gordon, this general expression of our views on subsection 17 of section 55, and I have nothing more to add to what Colonel Gordon has said, except perhaps to emphasize the thought that, in our minds, the effect of that subsection is, to a certain extent, to restrict the usefulness of the shareholders' auditors. I do not recognize any conflict, as has been expressed here, between the duties of the shareholders' auditors and any duties you may assume through being asked by the management to investigate the affairs of any customer's account or any loan. His whole object is to act in the best interests of the shareholders, and I do not think there is any real conflict of duty.

By Hon. Mr. Mackenzie (Vancouver Centre):

Q. The real hardship that you are complaining of is the fact that under the Act the auditors appointed to act for the shareholders of the bank cannot act for or on behalf of the bank or an officer of the bank.—A. I do not recognize that as a hardship at all. I do not think it is a clause that should be in the Act. In other words, this clause imposes a restriction on the bank as to who they shall employ to investigate the affairs of the bank. The shareholders have already appointed their own auditors.

Q. Are the banks objecting to this section?—A. I do not know.

Q. I think the objection is coming from the auditors themselves, is it not? —A. At the moment, yes.

Mr. DODDS: I might say that all the bankers objected at the last revision, but we are taking no action or stand now. I have not even consulted the other bankers who are here on this subject, although I am pretty sure what their opinion would be.

Hon. Mr. MACKENZIE: Would it be the same as that of the auditors, Mr. Dodds?

Mr. DODDS: Yes, substantially.

Hon. Mr. MACKENZIE: Well, in my opinion, Mr. Chairman, that is a double reason why we should leave the subsection as it is.

The CHAIRMAN: Gentlemen, there is some very illuminating evidence, on this point, at pages 761 and 762 of the proceedings of 1923, which are available to members of the committee. The witness being interrogated at that time was

Mr. George Edwards, of Edwards, Morgan & Company, who had been called in by The Hon. Mr. Fielding to investigate the Merchants' Bank, and Mr. Fielding asked him this question:

> Q. The bank in each case meaning the management of the bank?—A. Meaning the management of the bank. It is indeed unfortunate if matters have already gone that far, that a bank auditor requires time to decide whether he can afford to continue as the auditor for the shareholders, but he should nevertheless be required to make that decision. It is at least regrettable that the general manager should feel the necessity for employing the shareholders' auditor, when there are so many other first-rate public accountants available.
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> The necessity ought never to arise for the bank auditor to investigate the affairs of the bank's customer for any purpose connected with an audit of the bank's affairs. The opinion of Mr. McLeod (that is Mr. H. C. McLeod, formerly general manager of the Bank of Nova Scotia, who was very keen on this outside audit) may again be quoted on this point. In reply to the question (page 141):—
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> > Would they (the auditors) go to the firm whose paper is there and ascertain whether they are as solvent as they should be, and put that paper in such class as it ought to be?

He said:—

> > They would be going beyond their powers if they do that. I think that would be most injurious. They would act through the bank management.
>
> This is a very important and sound declaration respecting the duties of bank auditors. Their duty is to require evidence of this nature from the management.

There is the point. It is a question of whether it would be bank management audit or a shareholders audit.

Mr. Stanley: What is the procedure in the banks? How often are these auditors called in to check these accounts and audit the work, is it an everyday procedure, or every week procedure in an ordinary good sized branch of the bank, or is it an unusual circumstance? I refer to the auditing of customers accounts.

The Witness: As a matter of fact, since this section has come into the Act, our firm has never been asked by the bank to make any investigation of a customer's account.

By Mr. McGibbon:

Q. Does not the same firm do it?—A. Oh yes; we happen to be the auditors of more than one bank.

By Mr. Stanley:

Q. What I would like to know is whether it is an occasional procedure, or is it going on every day in regard to the auditing of customers accounts? Has the section here reference to a special audit being made of a customer's account? —A. A special audit of a customer's account, which is referred to in this subsection, will only arise when the occasion arises.

Q. How often does the occasion arise?—A. It depends on various things; it depends on the state of business in the country; it depends on the state of this particular customer's loans. A customer may go on dealing with a bank for years and years and the question of the soundness of his loan may never arise; it might arise at sometime.

[Mr. David Young]

Q. I was just wanting to know, as a matter of practice, how often has it arisen in the past?—A. I cannot tell that, because we have never received instructions from the bank.

The CHAIRMAN: They act as bank auditors, therefore they are prevented.

By Hon. Mr. Morand:

Q. Who is to say when a customer's account should be audited?—A. The shareholders' auditor may make inquiry into the affairs of the bank when he thinks that the information he has received about a particular loan, or rather about the security behind that particular loan, is not sufficient for him to form an honest opinion as to the worth of that loan, and he may then go to the management of the bank and say that he should have some further information regarding that loan.

Q. So that if this was eliminated, then the one who would make the audit for the shareholders would also be the one who would judge when the account of a customer has to be audited?—A. Not necessarily. The bank management itself might want this work done.

Q. But it still would be within his jurisdiction to report that?—A. The auditor's duty.

Q. It would be the auditor's duty?—A. To inform the management that he had not received all the information regarding this loan that he required, therefore, he required some further information from some source. The point is, that this same auditor acting for the shareholders, to my mind, should not be restricted from doing other work. His interest in having all the information that he should have is solely for the benefit of the shareholders, if for no other reason than to enable him to report more accurately and fully on the condition of that loan and, in effect, the investment of the shareholders' money.

Q. As far as the shareholders are concerned, he to-day has the right to demand of the management, or to suggest or recommend to the management that an audit be made of a customer's account.—A. I do not know that the shareholders' auditor would go to the extent of telling the management of a bank what they should do of their own initiation. He might say that he required further information, and the answer would be obvious.

Q. And the management, of course, is not in any way restricted by this Act in regard to the auditing of customers accounts.—A. They are restricted from using the shareholders' auditor.

Q. But they are not restricted from using other auditors?—A. No, no, their only restriction is on the shareholders' auditor.

By Mr. Bothwell:

Q. You are acting as auditor for a bank and you become suspicious about some customer's account in that bank, have you any authority, as auditor for the bank, to go into that account?—A. Only in so far as the bank records are concerned. We have no authority to go outside of the bank to get that information.

Q. What kind of report would you make on that to the shareholders, if you found an account of that kind, or would you make any report on it?—A. How do you mean?

Q. That is, you have to make a report to the shareholders of your audit of the bank?—A. Yes.

Q. Do you make any mention of an account about which you become suspicious?—A. If the occasion is grave enough, yes.

Q. That report would go to the shareholders?—A. If the occasion were grave enough, yes.

Q. How grave would it have to be?—A. It would depend on the circumstances; it would depend on how closely it affected the real financial position of the bank.

[Mr. David Young]

Mr. WILSON (of the Royal Bank): I think it is important to make a point, and that is, if an auditor goes to the bank management and says, "I am not satisfied with the condition of this account, I require further information", the bank management must get that information, and must satisfy the auditor, otherwise the auditor refuses to pass the account.

Hon. Mr. MACKENZIE: But they use other means of doing it.

Mr. WILSON: In getting that information, if it required the services of an auditor, I cannot use my own auditors, I must get some other one of the profession. I would like to make that clear. The management immediately gets busy though.

Mr. HACKETT: And the auditor would not render a service; they have to do it gratuitously.

The CHAIRMAN: No, he would be doing it on the bank's instructions.

By Mr. Jacobs:

Q. At the end of two years I understand the auditor employed by the bank retires automatically and some other firm of auditors takes his place.—A. The provision for the shareholders' auditor is this, that the shareholders shall elect each year two auditors. These two auditors can be members of the same firm of accountants; these two auditors cannot act jointly for more than two years.

Q. And at the end of that time what happens?—A. At the end of that time one of the two must retire.

Q. And another one is appointed?—A. Yes, but who is still not a partner of either of the original two.

Q. No, but there are always two, one keeping a check on the other?—A. There are always two, representing two individual firms.

Q. And is it not a fact that under the customary practice every bank has its own firm of auditors? The whole system of bank auditing is confined to one or two firms?—A. The auditors may be selected from the whole panel of auditors who are approved by the Finance Minister. As a matter of practice, the majority of the banks retain the auditing among a few.

Q. Among a select few?—A. That is more or less natural, because these individuals have had the experience and the knowledge of the bank's affairs in previous terms, and the banks get the benefit of that knowledge and experience, on reappointment. A new auditor coming in from the outside would not have that information or knowledge.

Q. So that this year, we will say, you act for the Bank of Montreal, and the following year you act for the Royal Bank, and so on, but you cannot act continuously for a bank.—A. One auditor may. The Act merely prescribes that one of the two auditors must change. The practice in the different banks varies with regard to that. In some banks, one auditor may remain there for years and only the second auditor retires after two years and another one comes in for a period of two years.

Q. And the provision, therefore, is, that when an auditor is appointed by the bank he cannot be called in to advise in the other case.—A. Mind you, each auditor is appointed annually. He is not appointed for two years, he is appointed for one year by the shareholders at their annual meeting.

Q. But he operates for two years?—A. He may if he is reappointed by the shareholders. I mean, he is not ineligible.

Q. And his term comes round again later?—A. If the shareholders still wish him.

By Mr. Donnelly:

Q. Is it the customary practice to keep one set of auditors continually?—A. The custom varies. Some banks have one man, in some instances one man has been the auditor for probably a number of years, and the second

auditor is on for two years; he retires and a third man comes in for two years; then he retires and the second man comes back again. In other cases the banks make their selection from three or four auditors, but only two of them are taken on as auditors.

Q. All three or four are being changed from time to time?—A. In each case they comply fully with the terms of the Act, that the two auditors cannot act for longer than two years in succession.

By Mr. Bothwell:

Q. So that the Act would be complied with by having three firms of auditors acting always?—A. So long as the individuals do not act jointly for more than two years.

By Mr. Geary:

Q. There seems to be some question raised about the distribution of the work. Is there any feeling in your association in that regard?—A. As to what?

Q. As to the work not being distributed, as to some not getting a share of the work?—A. I do not think so.

Q. It has not been raised in the Quebec Association?—A. No. Every accountant does not want to assume these responsibilities.

By Mr. McGibbon:

Q. As a matter of fact, when a new firm of auditors comes in to audit they very often discover discrepancies that have not been discovered by the previous firm?—A. I cannot say that.

Mr. McGibbon: Well, I have known of it.

The Chairman: Are there any other questions?

By Mr. Jacobs:

Q. I would like to sum this up in a word: So that the banks can employ individuals from the entire panel except the shareholders' auditor in this particular instance?—A. Under subsection 17, yes.

Q. The full list is open to them except their own particular auditors?—A. The whole list of chartered accountants is open, not only the panel.

Q. Is that a great hardship for the chartered accountants?—A. It is not a question of hardship to my mind.

Q. It is a question of reflection on their integrity?—A. A restriction.

Q. To-day you might be acting for the Bank of Montreal and not be called in, but you could be called in by the Royal Bank, and the Bank of Commerce, and so on.—A. Quite possible.

Q. So there is really no restriction?—A. In this way, I think, that the shareholders' auditor is the one that has to be satisfied about the soundness of a particular account. He is the logical man to make that investigation for the customer does not have any other association of auditors, but he is restricted from doing so.

By Mr. MacMillan (Saskatoon):

Q. As a matter of fact, the shareholders' auditor is appointed by the management?—A. No, sir, appointed by the shareholders.

Q. The proxies are sent to the bank president, and so on, and they vote them, is not that true?—A. The man who is appointed shareholders' auditor is appointed by the shareholders in the presence of the shareholders.

[Mr. David Young]

Q. But the shareholders are scattered all over the country, and proxies are sent to the management and directors of the bank, as a rule. As a matter of practical business, is not that so?—A. No more than in any other business.

Q. But is not that so, the shareholders do not all attend there?—A. It is a physical impossibility for all the shareholders of any bank to attend the annual meeting.

The CHAIRMAN: Your question is, that as a matter of theory, under the statute, the auditors are appointed by the shareholders, but in actual practice, are they not, in fact, appointed by the management who hold the proxies of the shareholders? That is the point Mr. MacMillan is making.

Mr. MACMILLAN: It could not be otherwise.

The WITNESS: That may be so.

Mr. BOTHWELL: Under section 56 of the Act, I can see no objection to an auditor being employed by the management of the bank who audits a customer's account that is causing some difficulty to the auditor because, under section 56 the Inspector General of banks has the power under sub-section 8 and 9 to act on behalf of all creditors and shareholders of the bank.

The CHAIRMAN: That is, under the direction of the Inspector General.

Mr. BOTHWELL: Yes, it is a further safeguard to the shareholders.

The WITNESS: That is so, yes.

By Mr. Coote:

Q. How many shareholders do you actually see at an annual meeting?—A. Personally I have not been to an annual meeting of a bank. I am not a shareholders' auditor, but two of my partners are.

By Mr. Gagnon:

Q. I would like to ask if, in the opinion of the accountants of the Provinces of Quebec and Ontario the interests of the banks could be best served if the shareholders' auditor was permitted to inquire into the accounts of the customers?—A. I think the interests of the shareholders would be better served if this section were removed.

The CHAIRMAN: That is why they are here. Have you any more questions to ask Mr. Young? They have requested Mr. Mapp to be here.

K. A. MAPP (Secretary, Ontario Society of Chartered Accountants), called.

The WITNESS: Mr. Chairman, there is nothing further that I can add to what has already been said by Colonel Gordon and Mr. Young except that I would like to file a resolution of the Ontario Institute regarding this matter.

The CHAIRMAN: All right, it will now go into the record.

> Resolution passed at the meeting of the Council of the Institute of Chartered Accountants of Ontario, held on Friday, September 22nd, 1933.
>
> Whereas revision of the Bank Act by the Dominion Government is in contemplation;
>
> And whereas a royal commission appointed by the said government is receiving representations from Chambers of Commerce, Boards of Trade, Industrial Associations, Investment Bankers' Association, Canadian Bankers' Associations, Economists and others, on important questions relating to banking in Canada;
>
> And whereas the members of our profession are concerned in the provisions of the Bank Act, particularly those relating to bank audits;

Be it resolved that in the opinion of this Council the provisions of sub-section 17 of section 55 of the present Bank Act, which reads as follows:—

> A person appointed under this section to audit the affairs of a bank, shall not, during the term for which such a person is appointed, either by himself, or by the firm of which he is a member, or by any other member of such firm, accept any retainer or undertake any employment on behalf of or at the instance of such bank or any officer thereof, whether at the expense of the bank or not, other than that of auditor hereunder; and failure to comply with the provisions of this sub-section shall be an offence against this Act.

are objectionable and appear to cast a reflection upan the integrity of the members in that it precludes members while acting as auditors of a bank from undertaking any other employment on behalf of or at the instance of such bank.

Be it further resolved that a special committee of two, including the president, be appointed by the president and that such committee be authorized to make representations to the Finance Minister or to the Chairman of the Banking Commission, or to both of them, to the effect that when revision of the Bank Act is made, the above quoted sub-section be eliminated.

The CHAIRMAN: I would like to ask the Inspector General to give us his views on the operation of this section, free and untrammelled, without any fear or favour.

Mr. TOMPKINS: Mr. Chairman, I am bound to say that for some years I have been greatly impressed with the usefulness to a bank—and that means to the shareholders of the bank—of being able to employ its own auditors to look into accounts which are troublesome or which, for some other reason, require some special investigation. I think that is the whole point here myself. I do not think that the integrity of the professional accountant has been impugned in any way, but I do feel, from my own experience over a period of years, that it is beneficial, and that there is no objection to it from that point of view. I do not think I can add any more to that, Mr. Chairman.

The CHAIRMAN: From the point of view of the banks?

Mr. TOMPKINS: From the point of view of the banks in getting better information, and the auditors being able to get the information in order to estimate the value of the loan or particular asset that is involved. I think that is the whole point and, in that respect, I think Mr. Euler saw the point quite clearly in his observations a few moments ago.

Mr. JACOBS: You heard the Minister of Finance say that he would not be in favour of having any change made in that section.

The CHAIRMAN: He said he had an open mind.

Mr. TOMPKINS: That is the very reason why I feel I can speak to you about it.

The CHAIRMAN: I understood the Inspector General was independent of the Minister of Finance and that is why I asked him to give his opinion free and untrammelled. Have you anything further to say, Mr. Tompkins.

Mr. TOMPKINS: I do not think so. I am quite prepared, of course, to answer any questions, but I do not think I can add anything further.

Mr. COOTE: Would you say that the shareholders' auditors of the banks have been handicapped in any way in keeping accounts audited in a very thorough manner?

Mr. TOMPKINS: I think they would prefer to be in the position where they could look further into accounts. A great many accounts have required special investigation in the last few years, of course.

Hon. Mr. EULER: You could see no harm?

Mr. TOMPKINS: I could see no objection to eliminating the section.

Mr. IRVINE: Do you know of any case where there has been loss to the shareholders through the operation of this section?

Mr. TOMPKINS: Loss to the shareholders?

Mr. IRVINE: Yes.

Mr. McGIBBON: Has this section not been workable?

Mr. TOMPKINS: I do not think it has been, for the reason that Colonel Gordon has expressed. I think that the auditors have been placed in a position of great difficulty sometimes in knowing just where to draw the line, and in knowing how near they come to violating the Act. I do not mean to suggest for a moment that they ever violated it, but sometimes a company might get into difficulties; they might approach that company, or they might approach the auditor who happened to be the auditor of the bank; it might be through some suggestion that the bank had made to the borrower, and it is very difficult to know where to draw the line. I think it is really beneficial to the shareholders to be able to have the shareholders' auditor look into these accounts without any restriction, such as has been imposed by the section.

Mr. ROBINSON: The shareholders' auditor would not, necessarily, do the investigating?

Mr. TOMPKINS: The bank would, I think, turn to its auditors, with whose capabilities they were familiar.

Mr. JACOBS: They only operate for about a year at a time.

Mr. TOMPKINS: That is very true, but at the same time they always have two men in whom they have confidence, two very competent men, because all the auditors at the present time certainly stand well from that point of view.

Hon. Mr. MORAND: In your opinion, would it decrease or increase the expenditure in the matter of auditing?

Mr. TOMPKINS: I do not think that expense would enter into it very particularly. I have never given that phase of it any attention.

The CHAIRMAN: This section was set up by the Hon. Mr. Fielding as additional protection to the shareholders and to the depositors of the bank. Would the elimination of this section weaken the underlying theory of Mr. Fielding's position?

Mr. TOMPKINS: Having regard again to the feature which I have emphasized from the beginning, I believe, after weighing the whole thing, that there is no objection to its elimination.

The CHAIRMAN: It would not weaken the position at all.

Mr. TOMPKINS: I do not think so.

Hon. Mr. MACKENZIE: It was put in by the committee in 1923 with Mr. Fielding not objecting to it.

The CHAIRMAN: I am inclined to think that Mr. Fielding adopted this baby pretty thoroughly.

Hon. Mr. MACKENZIE: The committee passed it.

The CHAIRMAN: My recollection is that he did.

Mr. JACOBS: I wonder, Mr. Chairman, why you did not pay this tribute to him while he was living.

The CHAIRMAN: I always paid tribute to him.

Mr. TOMPKINS: The Act as first introduced in 1923 did not I think have the subsection in it. It came in sometime after its introduction, I believe.

Hon. Mr. MACKENZIE: Who brought it in?

Mr. TOMPKINS: I do not recall the circumstances.

The CHAIRMAN: We shall have to look it up.

Mr. HACKETT: It is referred to in sections 40 and 41 of the Macmillan report.

The CHAIRMAN: That is a history of it, merely, is it not?

Mr. TOMPKINS: It is simply an historical outline, Mr. Hackett, I think.

The CHAIRMAN: Section 39 has reference to the history of this section, that is all. The report makes no comment on the section.

Hon. Mr. MACKENZIE: What was the expression of opinion of the committee in 1923?

The CHAIRMAN: I am not able to tell you myself, but I think Mr. Tompkins can tell you.

Hon. Mr. MACKENZIE: It is found on page 96.

Mr. TOMPKINS: It is on pages 94, 95 and 96. There was a division of opinion. Mr. Edwards was very strongly in favour of the adoption of the section. Several bankers gave their opinion to the effect that it was useful to be able to employ the auditors in the way that is now proposed.

Hon. Mr. MACKENZIE: My point is amongst the members of the committee was there any objection to the insertion of the section?—

Mr. TOMPKINS: I have not all the committee's proceedings.

The CHAIRMAN: I think Mr. Marler took the point of view—

Hon. Mr. MACKENZIE: He supported it.

Mr. DODDS: According to my record, he handed in an amendment, and Mr. Fielding said that the amendment served the same purpose, that he was content and the amendment was declared carried.

Mr. MACMILLAN: That is the sub-section we are considering now?

Mr. DODDS: Yes.

Mr. MCGIBBON: So far as my recollection goes, the committee unanimously adopted the amendment moved by Mr. Marler. As far as I am personally concerned, I am certainly opposed to changing it now.

Hon. Mr. EULER: Would this be putting the matter correctly? Under the clause as it now stands, the shareholders' auditor has not authority to audit customers' accounts on instructions; is that right?

Mr. TOMPKINS: He has no authority to audit the customers' accounts on instructions of the bank or any officer or director of the bank. That is to say, an account which had become troublesome or otherwise unsatisfactory, and on which the bank desired to have a special investigation conducted.

Hon. Mr. EULER: Is this correct; that that restriction from which shareholders' auditors suffer, if I may put it that way, may be detrimental to the interests of the shareholders themselves?

Mr. TOMPKINS: That is the way I see it.

Hon. Mr. EULER: Would you elaborate that?

Mr. TOMPKINS: It deprives or restricts him from having access to sufficient information to be able to estimate, as he otherwise could estimate, values.

Hon. Mr. EULER: And therefore is prejudicial.

Mr. TOMPKINS: That is the way I see it.

Hon. Mr. EULER: You can see no harm resulting in the removing of the restriction?

[Mr. C. S. Tompkins]

Mr. Tompkins: I can see no harm.

Hon. Mr. Euler: If it would do some good I would be in favour of removing it.

Mr. Stanley: I may not have this matter clear in my mind. As I understand it, the transactions referred to are extraordinary ones. They are not occurring in the transactions of every day business. It is only when something, we might say, "alarming" occurs in connection with some account. Before that happens, the auditors carry on in the regular way. Business has been going on, and all of a sudden something happens in connection with this account, and the shareholders' auditor feels that it should have some extraordinary consideration and audit. The section says, under those conditions, another auditor shall be appointed who would come in and give an elaborate report on the account.

It does seem to me that that is not going to interfere with the general transaction of the banks' business. It is a special consideration; it is a special protection of the shareholders, and is only used for extraordinary cases.

Mr. Duff: Are we dealing with section 55 now?

The Chairman: We are hearing the auditors, and this discussion arises out of the evidence.

Mr. Duff: Are you dealing with it and considering whether it should be passed or not?

The Chairman: There is no motion to pass it.

Mr. Duff: I should like to say when the time arrives I am going to move that sub-section 17 of section 55 be struck out. It seems to me, with the little knowledge of business I have, that the shareholders' auditor or the auditor of the company is the proper person to investigate everything in connection with the company. If he is a proper auditor and a man who is competent I am of the opinion he should investigate everything, whether it is a private account of the company or the general business of the company, private accounts of the customers, or general business of the customers.

Mr. Tompkins: Mr. Chairman, I do not want to labour any point at all, but in answer to Dr. Stanley, the very time that it is necessary to make frequent investigation is at the time of a business depression or when trouble appears, and it seems to me that is a time when the banks do benefit or the shareholders of the bank do benefit by having their own man actually go into the position of accounts of that kind, and use that information for the purpose of valuing the assets on the bank's books.

Mr. Stanley: It does not go so far as to prevent anything being done, if the shareholders' auditors are convinced that an audit is required, and should be done forthwith. There is nothing to hinder that being done as elaborately and completely as a shareholders' auditor may do it himself. Then, there is another thing that comes to my mind. In the past it has been some of those big accounts that have caused the disaster when two or three of the banks went under. That was the cause of the introduction of this particular section. It was put there as a preventative of that possibility occurring in the future.

Mr. Tompkins: It is quite possible to employ other auditors.

The Chairman: I am going to ask the banks to give us their views in a moment.

Mr. Gagnon: May I ask you one question, Mr. Tompkins? Do you know any benefit the shareholders have been deprived of in the last ten years by reason of the sub-section being on the statute books?

Mr. Tompkins: Well, that is a very difficult question to answer. It would mean a pretty complete survey, but I have seen evidence, in examining loans of

[Mr. C. S. Tompkins]

various banks that perhaps a greater value, shall I say, might have been placed by the bank upon the knowledge of the position of certain men by having an auditor with whom they were familiar, and with whose ability they were familiar, go into the position of such persons or companies.

Mr. Coote: Was it not because of Mr. Edwards' experience in this investigation of the affairs of the Merchants Bank that led him to suggest something of this kind.

Mr. Tompkins: Quite true; but in the case of the Merchants Bank the provision for the two auditors and changing auditors did not exist. That was back in 1922.

Mr. McGibbon: At the time the Farmers' Bank and the Home Bank failed, had this section been in the act, it would have been found useful?

Mr. Tompkins: Section 55, requiring the two auditors, would certainly have been useful, I think.

Mr. Duff: Is it your view that the shareholders' or the banks' interests can be conserved by having their own auditor go into the customers' accounts when they are auditing the banks' business, as well as having a special auditor?

Mr. Tompkins: I feel it would be beneficial.

The Chairman: That is his view.

Mr. Tompkins: That is my view.

Mr. Duff: You mean the regular auditor could do the special work as well as an outside auditor?

Mr. Tompkins: Yes.

The Chairman: Now, I should like to get the bank's point of view, and then I am going to give you Mr. Edwards' point of view.

Mr. Dodds: Our point of view is very largely this: We are loath to say anything at all, because of the attitude of suspicion that arises when we side with anybody. We have expressed a view, honestly believing that it is in the best interest of the country; but if we say something about it, the mere fact that we believe it and say it, is enough to damn it in the eyes of the public.

Now, I would say that my own bank was deprived of the services of one of the firms of the highest standing in Canada, because that section was put there. They said, "we won't do your bank's business; we can make more money without your business. We just won't carry on with you;" and therefore we lost their services. Is that in the best interests of the bank, the country, or anybody else? I say it is not. Then, secondly, when it comes to the case, as has been mentioned before, of one firm auditing the books, the bank's auditor is not altogether satisfied and he cannot go in there and get the information. You have to bring in the third firm, and you have the public talking about somebody's business at a time when secrecy is of the utmost importance. I am inclined to think no matter how confidential matters are kept, information is bound to leak out. I am inclined to agree with a man who said, "this is confidential? I know it, your secretary knows it, and you know it. That is 111 people." I think these things are better kept to a few, in the interests of the bank, the customer, and the shareholder. Outside of the fact that we are deprived of the benefit of using those auditors, it does not make a bit of difference to us. We are running the bank in much the same way. I think what you are trying to do, you are not doing. You are defeating your own object when you allow that section to stand. That is my view.

The Chairman: Mr. Wilson would you care to say anything on the section?

Mr. Wilson: I should like to give you an illustration of how it works out in actual practice. It is not every day, of course, that a bank requires a special investigation into a customer's affairs. It may happen once a month,

[Mr. C. S. Tompkins]
[Mr. Jackson Dodds]

or several times a year; but I have in mind a case that occurred to me several years ago. I asked a customer of mine for special information, information that was not disclosed by his ordinary statements. I prepared a long questionnaire and presented it to him, and he said, "Well, I will get the auditor busy on this right away," and he incidentally mentioned his auditor. It happened that the auditor was one of our auditors, and I said, "Let us forget about it." I said, "There is a section in the Bank Act which says that you will have to get a special auditor, because your auditor is our auditor." I said, "We will have to get somebody outside, somebody who does not act as an auditor for the Royal bank." The customer said, "No, I won't do that; I will go into bankruptcy first. I cannot put an outside auditor in my office without allowing the staff to know there is something unusual going on." He said, "You have to decide whether you want this information, or whether you want me to go into bankruptcy." I said, "We do not want you to go into bankruptcy," so we did not obtain the information. That is how it works out in practice.

Mr. HACKETT: Mr. Tompkins, at the time subsection 17 was enacted, was there any provision in the Bank Act for government inspection?

Mr. TOMPKINS: No.

Mr. HACKETT: So that the whole safeguard resulting from government inspection did not exist at the time subsection 17 was enacted?

Mr. TOMPKINS: That is quite true; the provision for government inspection was enacted in 1924.

Mr. MCGIBBON: Was not government inspection opposed by the banks previous to that?

Mr. TOMPKINS: I think that is more or less true.

Mr. MCGIBBON: But it was passed federally in 1923?

Mr. TOMPKINS: No, it was passed in 1924.

The CHAIRMAN: Mr. Henwood, have you anything to say? Mr. Henwood is general manager of the Bank of Toronto.

Mr. HENWOOD (of the Bank of Toronto): We have not any difficulty with regard to the present clause because we happen to have the use of Clarkson, Gordon and Dilworth, our former auditors. When we want special information we can get it through them. But it seems to me that legislation by which the government said to the banks, " we approve of certain auditors which you may employ for the audit of the bank," and your shareholders appoint these men who would undertake the audit of the bank as shareholders' auditors, but when they feel that they should have further information with regard to certain accounts, the act says, we have authorized your appointment by the bank, but when you reach this point, we do not propose to allow you to go on and get this information, although you are working on behalf of the shareholders." It seems to me it is a perfectly logical thing to permit the auditor to pursue his inquiry without putting the bank under the necessity of going out and getting other auditors.

Mr. DUFF: May I ask you a question, Mr. Henwood? I presume sir, you are either director or shareholder in other companies outside of the Bank of Toronto?

Mr. HENWOOD: Yes.

Mr. DUFF: My reason for asking that question is this: would you as a director or shareholder of any other company, outside of the bank, if a question came up for examination of the accounts of a customer of that company, employ the regular auditor of that company, or would you go outside and get new men?

[Mr. M. W. Wilson]

[Mr. H. B. Henwood]

Mr. Henwood: I should be satisfied to employ the regular auditors of the company. With regard to Clarkson, Gordon and Dilworth, of course they were our auditors before this act came into effect, and they gave us up, and therefore they are eligible to be used by us if we want them.

Mr. Spencer: I should like to ask Mr. Tompkins if in his duty he has anything at all to do in respect of individual accounts in the bank?

Mr. Tompkins: Surely, a great deal to do with it. Perhaps we will go into that when we come to section 56. At that time I shall be very glad to go into it fully. I referred to it in the evidence given by me before the Macmillan commission, and I shall be very glad to answer any further questions later.

The Chairman: For the information of the committee, I should like to state that Mr. Mackenzie is absolutely correct. This is not the original subsection that was introduced in the bill in 1923, but as a result of the representations made, a compromise was arrived at by the sub-committee of which Mr. Baxter was chairman. It has come to my mind, in reading the record. It might be said to be a compromise between the conflicting views on the same subject. If there are no other questions to ask any other witnesses, I should like to put on the record the statement which has come to the Department of Finance, unsolicited, from a gentleman who was really the father of this idea. That is Mr. Edwards. The letter is from Edwards, Morgan and Company, Toronto, and is as follows:

> Dear Mr. Clark:—I have been made aware recently that the council of the Institute of Chartered Accountants has deputed one of its members to make representations at Ottawa with the object of having subsection 17 of section 55 of the Bank Act (R.S. 1927) repealed or modified when the Act comes up for revision at the present session of parliament. Inquiry discloses that this action by the council gained support on the ground that the section amounted to a reflection upon the integrity of Chartered Accountants generally; an appeal of the sort which, if no question of public policy or professional ethics appeared to intervene, might be expected to sweep the members of the council off their feet. This is apparently what has happened.
>
> If any such representations have been or should be made, it becomes the duty of someone to present for the consideration of the Minister certain facts which I believe to be relevant. I am taking this duty upon myself, for the reason chiefly that it was upon my advice that the Banking and Commerce Committee adopted the subsection, which was then subsection 16 of section 56 of Bill 83 as printed following its first reading in 1923. As finally passed the original subsection 16 was divided into two which were numbered 15 and 16. In the Revised Statutes, 1927, these subsections are numbered 17 and 18, and 17 is the one respecting which it is intended to make representations.
>
> When Bill 83 was considered by the Banking and Commerce Committee in 1923, Mr. Clarkson gave evidence respecting the audit clauses, and this particular subsection is taken up at page 725 of the printed proceedings. Later, I gave evidence which appears in the printed proceedings at page 759. Neither Mr. Clarkson nor myself had any mandate to speak for the Chartered Accountants or any of them in particular. Each gave his personal views. It will be noted that the minister took high ground in supporting the subsection, but not I think, too high, in the public interest. I also took high ground as well from reasons of ethical professional conduct as from reasons of public policy. The views then expressed have equal force now.

[Mr. H. B. Henwood]

Conditions have, however, changed to some extent, notably in the fact that there are fewer but more powerful banks, fewer but more powerful general managers, and fewer but more powerful accounting firms receiving appointments as auditors of banks. If in the light of such concentrations subsection 17 should no longer be there to exercise a wholesale restraint, auditors nominally chosen by shareholders of industrial companies which borrow from the banks will be chosen by the general managers of the banks and the cost of auditing the banks will fall upon the banks' customers, as Mr. Clarkson in his evidence before the Banking and Commerce Committee so frankly explained. The motion recently adopted by the council of the institute is open to these main objections:—

1. It is ultra vires of either the council or the Institute.
2. It was not intended for the advantage of the members generally.
3. It has not the approval of the members.
4. It aims to abolish restraints upon unethical professional practices.
5. The subsection cannot be construed as derogatory to chartered accountants because the Bank Act does not mention chartered accountants.

I understand of course that the minister and the committee will be governed solely by considerations of public policy, yet it does seem to me that public policy is concerned to some extent with reactions of the nature I have tried, fairly I hope, to describe in this letter.

The CHAIRMAN: I suggest, that having heard all this evidence we leave this to decide when we come to the question.

Hon. Mr. RALSTON: Might I make a suggestion: Evidently the object of this section, which perhaps was lost sight of, was to in some way or other to protect the shareholders from the management. The suggestion apparently was, that the management would insidiously influence the auditor appointed by the shareholders by giving him a job; that is the real suggestion. Now then, I do not think, for myself, that they went too far; that is to say, it is almost incidental, it seems to me, to the job, that the auditor should have an opportunity of investigating a particular account and he does not do it unless somebody pays him for it; the bank feels they should not do it, therefore, the customer pays the bill at the instance of the management of the bank, at least that was the suggestion. Would not our difficulty be gotten over, and would not we meet any suggestion at this time when things are a bit stirred up if we simply insert in this section the words "with the consent of the Inspector General," because after all I understand there are a very few cases and the Inspector General could easily be written to, and he would know whether or not it was an insiduous attempt to influence the firm of auditors.

The CHAIRMAN: My attention has been called to Page 765 of the evidence of 1923, when Mr. Ladner was examining Mr. Edwards, he was asked:

Q. Do you base your opinion upon actual experience or observation?—A. No, not at all. I base my views upon an underlying and fundamental principle that I think should govern all professional men. I think that the man who takes on a professional capacity for a client should not act for another in the same case, whose interests might be adverse or hostile, or whom he might have to criticize in the course of his duties.

I think we ought to take the whole thing under consideration.

[Mr. H. B. Henwood]

Mr. HACKETT: Before we close, Mr. Chairman, as a matter of accuracy Mr. Edwards says the accountants are not referred to in the section. I think they are.

The CHAIRMAN: Chartered accountants.

Mr. HACKETT: If you will read sub-section 1 of section 55 I think you will see that accountants are referred to. The section reads:

> The affairs of the bank shall be audited by two persons, residing in Canada, each one of whom shall be an accountant who has for at least six years preceding the date of his appointment, as hereinafter provided, practiced his profession in Canada, and who shall also be a member in good standing of an institute or association of accountants incorporated under the authority of the legislature of any Province of Canada.

I think that that means a chartered accountant.

The CHAIRMAN: Possibly you are right.

Mr. HACKETT: I do not think there is any possibility.

Mr. LAWSON: What about licentiates in accountancy who are authorized by statute in the Province of Ontario?

The CHAIRMAN: Before we close this hearing, I would like to point out that Colonel Gordon was good enough to hand in a suggested amendment which I think should go into the record, so that we may have their concrete views before us. It reads as follows:

> 17. A person appointed under this section to audit the affairs of a bank shall not during the term for which such person is appointed accept any retainer or undertake any employment on behalf of such bank other than that of auditor hereunder; provided nothing herein contained shall prevent such person from being retained or employed to enquire into or deal with any situation arising out of or connected with the financial position or affairs of any borrower from or customer of the bank or performing such other services with respect to such borrower or customer as the bank or the directors thereof may deem necessary or expedient for the protection or benefit of the bank.

At this stage the Committee proceeded to consider the clauses of the Bill.

AFTERNOON SESSION

After consideration of clauses of the Bill.

The CHAIRMAN: This really brings up a consideration of paragraph 3 of the motion proposed by Mr. Power on May 6. It would be just as well if we were to have a statement thereon from the Inspector General of Banks.

Mr. TOMPKINS: Mr. Chairman, in the first place I would like to submit that I think the order in council which has already been filed in the proceedings of the committee really sets forth the circumstances which brought about the passing of the order in council. I believe that is an answer to begin with, and I state that as a preliminary point.

The CHAIRMAN: Will you read the recital from the order in council.

[Mr. C. S. Tompkins]

Mr. TOMPKINS: Yes. This is P.C. 2693, October 27, 1931 (See Appendix "W").

> Whereas the Acting Minister of Finance reports that owing to the existing general depression, but more particularly the recent international monetary developments, quotations have been recorded in the security markets for many high-grade government securities which would not seem to be normal or reasonable quotations, or such as might serve as a proper indication of the intrinsic value thereof, having regard to the fact that the security behind these obligations has undergone no fundamental change;
>
> And whereas the chartered banks are required, under the provisions of the Bank Act, to show investment securities in their monthly and annual financial statements at not in excess of market values; And whereas representations have been made by the Inspector General of Banks that it is in the public interest that a reasonably stable basis of valuation be determined for such high-grade securities;
>
> And whereas section 4 of chapter 58 of the Statutes of 1931 provides that His Excellency the Governor General in Council shall have full power to make all such orders and regulations as may be deemed necessary or desirable for, among other things, maintaining peace, order and good government throughout Canada;
>
> Therefore His Excellency the Governor General in Council is pleased —on the recommendation of the Acting Minister of Finance and under the authority of section 4 of chapter 58 of the Statutes or 1931 aforesaid, and of all other powers and authorities in that behalf—to order and it is hereby ordered as follows:—
>
> 1. That for the purposes of the return provided under section 112 of the Bank Act and Schedule "G" thereto, and the annual report as directed by section 33 of the same Act, the chartered banks of Canada shall, until this order is amended or rescinded, value the securities owned prior to the 31st day of August, 1931, at not more than the book value, or the current market prices thereof on the exchanges at the close of business on the 31st day of August, 1931, whichever may be the less, and the securities required since the 31st day of August, 1931, at not more than the cost price thereof.
>
> 2. This Order shall come into force and effect on the 26th day of October, 1931, shall apply to the returns of the chartered banks as from September 30, 1931, and shall continue in full force and effect until the 1st day of March, 1932, unless sooner amended or rescinded by competent authority.

Mr. GEARY: That made it imperative?

Mr. TOMPKINS: That made it imperative. Of course, the statement I have to make is a very brief and general one.

Hon. Mr. RALSTON: What is the expiry date?

Mr. TOMPKINS: March 1, 1932:—

> Owing to the departure of Great Britain from the gold standard in in September, 1931, and to the unprecedented international monetary developments both before and after, security markets became demoralized with the result that market quotations for government and other securities of the highest grade reached levels which appeared altogether out of keeping with their intrinsic or reasonable value. Because of this and of the general uncertainty which then prevailed, it was deemed advisable to pass an Order in Council to relieve the banks from immediately writing down such securities to the equivalent of market quotations. A further consideration which influenced the passing of this Order in Council

> was the extent to which banks had taken up government issues from time to time, thereby contributing to their success, as well as the probable extent to which they might be called upon to subscribe to the then impending National Service Loan. It was felt that they could not in fairness be expected to take up large blocks of such securities and face the risk of providing fully (even if temporarily) for depreciation therein.
>
> The banks did not find it necessary to resort to the authority contained in the Order in Council to any important extent and while that Order was general in its terms, it was never the intention that it should apply (nor was it applied) in any sense to securities other than government or municipal issues (direct or guaranteed) of an entirely satisfactory class. While, therefore, it was passed as a precautionary measure in view of the conditions mentioned, it did not lead to any real departure from sound banking methods. Actually the banks were in a position at the end of their respective 1931 fiscal years to make reasonable allowance for depreciation in all of their investment securities, either out of profits or internal reserves.
>
> The authority contained in the Order in Council dated from September 30, 1931, and expired on March 1, 1932. It was not renewed nor was any similar authority asked for or given thereafter.

I do not think I need to go any further than that. Of course, it is almost superfluous to remark, that the securities have since risen to a point considerably beyond the values that were then considered reasonable values, so that this thing was something that was in existence for a matter of five months; looking back to which recalls a time of great uncertainty, and that is the whole story.

Hon. Mr. RALSTON: The ability to provide depreciation and provide for profits was based on the market value and not on the order in council.

Mr. TOMPKINS: Well, this is what I want to impress upon the committee, Colonel Ralston. That action was taken as a precautionary measure at a time of great uncertainty and when nobody knew what was coming next. I felt that it was advisable, and others felt the same way about it. And the mere fact that the government passed the order in council is surely evidence that they were of the same opinion.

Hon. Mr. RALSTON: My question was this, what occasioned the ability of the banks at the end of three fiscal years to write off depreciation and provide for profits as well? Was that ability based on the usual market value and not on the value, the additional value permitted under the order in council?

Mr. TOMPKINS: No, really on the market value.

The CHAIRMAN: Are there any other questions on that point, gentlemen?

Mr. SPENCER: Did any of the banks take advantage of this legislation?

Mr. TOMPKINS: Well now, you are getting down to individual cases, Mr. Spencer. I think the banks should give that information themselves.

Mr. SPENCER: My idea was to find out whether it was necessary.

Mr. TOMPKINS: I have said that the extent to which it was availed of was unimportant, and it was only for a very temporary period, and only in connection with government and municipal securities. Notwithstanding all that, at the end of those fiscal years the banks were able to take care of depreciation apart from the provisions of the order in council.

Mr. SPENCER: My point was, that if they had taken advantage of it it only shows the justification for the government passing an order in council. If they did not, then the government was very cautious.

[Mr. C. S. Tompkins]

Hon. Mr. Rhodes: It was a panicky condition, nobody knew what was going to happen.

Mr. Coote: Mr. Tompkins, could you tell us approximately the percentage of drop in the market value of government securities about that time? What was the greatest drop?

Mr. Tompkins: I do not know that I can give you that information, Mr. Coote.

Mr. Coote: Was it as much as ten per cent?

Mr. Tompkins: For example, the 58's and 59's ran around 88; to-day they are somewhere around 104 and 105.

Mr. Coote: Had they been at 100 before that?

Mr. Tompkins: They had been higher than 88, then they went down, if I remember correctly, to a low point of 88. The Dominion Bureau of Statistics, in the proceedings of the Banking and Commerce committee last year, dealing with debts and interest rates, filed a table showing the yield on Dominion government bonds since 1926, in connection with the principal refunding issues, and that showed that the interest yield in September of 1931 was 4·61 per cent; in October 4·97 which, of course, meant a drop in the price; in November it was 4·94; in December 5·15; in January of 1932, 5·37; in February, 1932, 5·23; and from then on, with one or two slight exceptions, it tended to go down again. In February of this year it was 4·36.

Mr. Coote: Mr. Chairman, I think this is a very important point for the banking committee to consider. I understand the banks carry about $800,000,000 worth of these securities, and if the value of some of these securities has dropped it has affected the standing of the banks, and personally I always have felt that we should have some better method of establishing the real value of these securities which banks hold to-day. I do not suppose the committee is at this tions in a rather difficult position by sompelling them always to show these securities, but I do feel myself that we are placing some of our financial institutions in a rather difficult position by compelling them to always show these at the market value, because we do not know at what time some occurrence may happen really to upset the market value and put it much below the real intrinsic value of the securities.

Hon. Mr. Euler: I understand you to say that the banks did not avail themselves of the privilege they had under the order in council. Does that mean then that they wrote down their securities in accordance with the reduced value?

Mr. Tompkins: Or set up a reserve account, which is the same thing.

Hon. Mr. Euler: Have you any idea as to the amount involved?

Mr. Tompkins: I would not like to quote figures.

Mr. Coote: May I ask the Inspector General of Banks, whether he cares to give us an opinion as to why Canadian banks are carrying public securities other than Canadian; might they not be well advised to confine their investments to Canadian securities?

Mr. Tompkins: You must remember, of course, that there are British treasury bills and other British securities, and different kinds of securities of possibly a few other countries where the liabilities of the banks would be in the same sort of currency largely or entirely.

Mr. Coote: Then there are bonds, such as the bonds of pulp and paper companies, meat packing plants, and other corporations.

Mr. Tompkins: In connection with pulp and paper securities, there is a very erroneous impression as to the amount of such securities held by the various banks.

Mr. COOTE: It would seem to me that it might be a very good thing for the banks to clear up any misunderstanding that might exist.

Mr. TOMPKINS: You will have the opportunity, Mr. Coote, of asking them. May I say this: I do not think, so far as the shareholders or the general public are concerned, that it would be well to publish that information because in the first place they would not be in a position to judge better the position of a given bank. For instance, important assets and loans are simply reported in total, and you obviously could not report your individual borrowers. And I furthermore think, that the publication by the banks of their holdings of certain securities might tend to influence public opinion unduly in favour of such securities as against others equally good.

Mr. COOTE: I would say that the banks should not carry in their portfolios the securities of some of the companies, securities that they advertise as being for sale in their bond departments.

Mr. TOMPKINS: No, I think that is a correct thing to say.

Mr. COOTE: And it would certainly be a guide to the public as to the care with which the institution was run, and the class of securities that they did carry.

Mr. DODDS: It is pretty well specified in this Act.

Mr. JACOBS: I just want to ask a question, Mr. Tompkins. Can you see the time, in the not very distant future, when practically the only creditors of the banks would be the governments—federal and provincial—of the Dominion of Canada?

Mr. TOMPKINS: The only debtors you mean, do you not?

Mr. JACOBS: That is to say, the government will own everything in the way of cash.

Mr. TOMPKINS: You mean, the banks will have nothing but government securities?

Mr. JACOBS: Yes.

Mr. TOMPKINS: I can hardly visualize that, Mr. Jacobs.

Mr. JACOBS: Can you tell us how much they hold of government—that is federal and provincial—securities in the way of bonds?

Mr. TOMPKINS: I have mentioned that already—Dominion and provincial governments, $635,000,000 at the end of February.

Mr. JACOBS: As against how much for the rest of Canada? I want to get the proportion.

Mr. TOMPKINS: Do you want to get the total loans in Canada?

Hon. Mr. MACKENZIE: Government securities held by others outside the banks.

Mr. TOMPKINS: I cannot give you information as to what the total would be.

Mr. JACOBS: But you cannot visualize a situation where the government will practically own everything that the banks have.

Mr. TOMPKINS: I do not believe I have reached that stage yet.

The CHAIRMAN: Gentlemen, if we are through with that we will revert now to Mr. Irvine's amendment.

The Committee then resumed consideration of Bill 18.

(The Committee adjourned at 6 p.m., to meet on Thursday, April 26, 1934.)

HOUSE OF COMMONS,

April 26, 1934.

The Select Standing Committee on Banking and Commerce, Mr. R. B. Hanson in the Chair.

AFTERNOON SESSION

(The committee has section 56 of Bill 18 under consideration.)

The CHAIRMAN: Colonel Geary has a question he wishes to ask Mr. Tompkins.

Mr. GEARY: My question is in connection with the discussion we had the other day about the valuation of securities under the order in council which was presented to the committee. It seems to have been the view of some persons that something was said which I do not think was said at all because certain press dispatches seemed to indicate that the banks had taken advantage of that order in council to revalue their securities to the extent of some $12,000,000. My recollection of the evidence is that it was nothing of the sort, and I would like to ask Mr. Tompkins if he, recalling that, can give a statement to the committee about it?

Mr. TOMPKINS: A totally incorrect assumption, if I may be permitted to term it such, has been drawn by the newspapers. At the afternoon sitting of the committee, on April 24th—it was not a matter of record in the committee proceedings at the time—an amount of $12,000,000 was suggested as a rough estimate of what might have been considered the spread between the low of market values for all bank securities, investment securities, and the values as prescribed by the order in council. Now, that is a totally different thing from the extent to which the banks may have used the authority of this order in council, and it was not suggested as applying in that way at all. The statement I made on that subject, therefore, stands; namely, that the banks did not find it necessary to resort to the authority contained in the order in council to any important extent, and while that order was general in its terms it was never the intention that it should apply, nor was it applied, in any sense to securities other than government or municipal issues (direct or guaranteed) of an entirely satisfactory class, and that actually the banks were in a position at the end of their respective 1931 fiscal years to make reasonable allowance for depreciation in all of their investment securities either out of profits or internal reserves.

Mr. GEARY: That is my recollection.

Mr. TOMPKINS: I shall endeavour, without going into too great detail, and even though it may be something with which many members of the committee are familiar, to give you an idea of the inspections or audits to which banks are subject. I have no fully prepared statement to read, but will deal with the matter mainly from notes before me. To begin with, it is well known that no complete audit of a bank with a large number of branches could be made without a simultaneous check at one time of all branches. That is to say, on a given day there would require to be made a complete audit and inspection of every single branch. That, of course, is something that is physically impossible and is never done. The banks, first, have their system of internal inspection—what is usually called internal inspection. They have experienced officers who inspect their branches once a year, sometimes more frequently, and, as I say,

these officers are all experienced men, and they conduct a very thorough examination of all the affairs at the branch. They not only count the cash and verify securities, but they report upon borrowing accounts, go through them minutely with the manager of the branch, scrutinize routine and all of the other matters that usually appertain to bank inspection work. I have made enquiries from time to time as to the systems followed by the different banks, and I have found that these inspections are as efficient and effective as is humanly possible. We next come to the shareholders' audit.

The CHAIRMAN: Before you leave that, may I ask: is there not in some banks a second inspection of loans solely?

Mr. TOMPKINS: That very often happens. Some banks have a system of having a routine inspection first and a loan inspection later on, but it is all part of one comprehensive inspection. We next come to the shareholders' audit. The provisions for shareholders' audit were first introduced in the Bank Act in 1913. For some years it was necessary for banks—

Mr. DODDS: That was 1913?

Mr. TOMPKINS: Yes, 1913. For some years it was only necessary for banks to have one auditor. These auditors were selected, if I remember correctly, from a panel named or arranged for by the Canadian Bankers Association. In 1923, as a result of the Merchants' Bank troubles, and as one of the improvements which usually accompanies the Bank Act decennial revisions, section 55 was reconstructed in very important respects. As a matter of fact, one has but to read the section itself as it now stands in the Act to see the provisions for qualifications of auditors and the duties that they are required to perform. It is necessary that there be two auditors, and no two auditors can serve together for a period longer than two years. That has all been explained fully to the committee in former hearings. The present auditors are all men who are well versed in bank auditing. I have discussed with them at various times the scope of their audit and many other questions that are of mutual interest to them and myself. I have a list here, Mr. Chairman, of the present auditors. I do not know whether it is necessary to file it, but I brought it with me in case it should be necessary.

The CHAIRMAN: Put it in anyway. (See Appendix "AB.")

Mr. TOMPKINS: In regard to the scope of their audit, I think I can deal with that best by reading to the committee a letter, without naming the auditor or bank, from one of the firms to me—one of the auditing firms to me, or rather from one of the individual auditors, because a firm cannot be an auditor—reporting upon the scope of their work in this particular institution. The letter, as I will read it, is as follows:—

The CHAIRMAN: What is the date of it?

Mr. TOMPKINS: It is several years ago, but the scope of this work has not changed in the interim:

> Dear Mr. TOMPKINS: I have your letter and I have pleasure in giving you a résumé of the ground covered in our examination of the different offices of the *Blank Bank* during the course of the year and at the end of the bank's fiscal year.
>
> During the year the auditor's joined with the bank's own inspectors at the following offices: Montreal, Toronto, Winnipeg, Vancouver, New York and London, England.
>
> At these inspections, the auditors generally supplied sufficient staff to enable them to satisfy themselves that the cash and securities, as shown in the inspection reports, were correct. In New York, special attention was paid by the auditors to the verification of all securities,

[Mr. C. S. Tompkins]

particularly those held as collateral for Call Loans, and the valuation of the collateral. In the London, England office, the auditors supplied the whole staff for the inspection with the exception of one bank official who was sent from the head office to make the inspection.

At the close of the bank's financial year, the auditors verified the cash and securities and balance sheets at Montreal main office, and at another large branch in the same city, New York, and London, England. In New York office, at the close of the year, only the securities held for collateral were examined and the Call Loans were all confirmed by the borrowers and the securities valued to see that proper margins were held. In London, England, the same procedure was followed at the close of the year.

In addition to the above, the auditor's work was practically continuous in the head office throughout the year.

An assistant, fully experienced in banking practice and routine, spent his whole time in the bank reading inspection reports, correspondence and other records from which information might be gleaned regarding the progress of the bank's business, particularly their loans. Notes are made on all bank inspection reports, and these are gone over by the auditors personally from time to time. The auditors also review, from time to time, the special statements of large loans which are submitted to the directors and keep in touch with the fluctuations in these loans.

At the close of the year the auditors also go over, in detail, the branch manager's reports on non-current and doubtful current loans and see that suitable appropriations are made for all bad and doubtful loans. In addition to the branch manager's reports, the auditor has also before him the recommendations of the district superintendents, and notes on inspectors' reports.

The head office balance sheet is checked in detail, the following being the main items examined. All branch balance sheets are examined and checked into the head office records. The segregation of the cash balances are checked; the vouchers for closing entries, including transfers of branch profits or losses; the items in transfer, including branch parcels; securities owned by the bank verified and valuations checked. The branch clearings are seen to be balanced, and the analysis and segregation of the branch clearings is checked.

Finally the head office balance sheet is gone over and the composition of the various items reviewed.

It might also be added that when any loans which are returned by branch managers as having become technically non-current and which it is thought might be submitted to the board of directors for their approval of such loans being carried as current, a memorandum of the position of the loan and the recommendation to be placed before the board is submitted to the auditors for their approval, before being passed on by the board.

I think that letter will give a very good illustration of the scope of the work in at least one of the larger banks.

Mr. Coote: Mr. Tompkins, you have referred to current and non-current loans. Would you tell us what decides whether a loan should be called current or non-current?

Mr. Tompkins: Section 113 of the Act defines a non-current loan.

Mr. Coote: Perhaps you will define it for us.

Mr. Tompkins: Well, it is a pretty long section. I can read it to you if you wish.

Mr. COOTE: It might help us to get along if you tell us rather than having it read.

The CHAIRMAN: Page 33 of the Bill.

Mr. COOTE: I think it is rather an important matter at a period such as we have been going through in the last three years.

Mr. POWER: It is in sub-section 5.

The CHAIRMAN: At the foot of the page.

Mr. POWER: What do they mean by the words "unassisted by the bank" at the end of (*a*)?

Mr. TOMPKINS: Non-current loans are defined in sub-section 5 of section 113 of the Bank Act, which reads as follows:

> (5). For the purposes of any return provided for or required under the last preceding section, or for the purposes of any statement or balance sheet prepared and issued by a bank, there shall not be included amongst "current loans" any loan in respect of which
>
> (*a*) the borrower has not for a period of two years preceding the date of such return, statement or balance sheet, paid the interest thereon at the rate agreed, in cash, unassisted by the bank.

Mr. COOTE: There is a question right on that point.

Mr. TOMPKINS: Major Power asks what is meant by "unassisted by the bank." That means, that the bank did not grant him a further loan to enable him to pay his interest.

Mr. COOTE: Could he make a separate loan?

Mr. TOMPKINS: He might do that and he might give additional security. It might be a new transaction that would be justified on its own merits. He might pay interest by getting an additional loan against additional security.

Mr. POWER: But a man might carry a loan for several years provided he kept the interst paid up.

Mr. TOMPKINS: And provided that his collateral is reasonably good from the point of view of ultimate recovery.

By Mr. Geary:

Q. If a man were to rest for two years, would he be able to get a second loan and use the proceeds to make the first loan good? Would that still be a non-current loan?—A. I do not think so. I think you can look at that from a different point of view.

Mr. COOTE: You would not interpret it in that way?

Mr. TOMPKINS: No I do not think I would.

> (*b*) The bank has taken possession of the property or any part of the property covered by any security given by the borrower with the intention of realizing thereon, or has realized or taken any step or proceeding for the purpose of realizing upon any security given by the borrower;

Mr. POWER: Just on (*b*), what if the bank has not taken possession of the property, but let us say the bondholders have.

Mr. WILSON: That is provided for later on.

Mr. POWER: I have an idea that there is in our province, at least, provision whereby bondholders who have not been getting their interest may take over and operate and administer any property.

Mr. HACKETT: That is under the Trust Deed.

[Mr. C. S. Tompkins]

Mr. POWER: Yes, without necessarily putting the company in liquidation. Now, what happens there.

Mr. TOMPKINS: That might become non-current, in my opinion. But are you suggesting that the trustee for the bondholders might go to the bank and receive accommodation to carry on the business?

Mr. POWER: Yes. The trustees simply step in and administer the property for the benefit of the bondholders, and presumably negotiate the loan and pay certain interest and so on, on the loan.

The CHAIRMAN: How could he do that except by the appointment of a receiver?

Mr. POWER: I do not think he would get it.

Mr. HACKETT: Under many trust deeds, the trustee for the bondholders may take over without putting the company into bankruptcy.

The CHAIRMAN: A new loan would take precedence over the bondholders. He would have to go to court to get some authority. The only way banks would ever do it would be to appoint receivers. They are, under the trust deed, made receivers; they would have to get authority to borrow.

Mr. DODDS: There is a section somewhere about loaning to a receiver.

The CHAIRMAN: Oh yes, they are entitled to loan to a receiver, under a court order.

Mr. POWER: I do not think so, Mr. Chairman.

The CHAIRMAN: I do not think any bank would loan you money without it.

Mr. JACOBS: The trustee is in possession.

The CHAIRMAN: Yes, for certain purposes, including the carrying on of the business; but I am satisfied that no bank would loan a trustee money to carry on that business unless there was authority from the courts, and he would have to issue new documents to the bank which would secure them over and above the first mortgage bonds.

Mr. POWER: A trustee might just carry on the business of the former proprietor in the name of the trustee.

Mr. TOMPKINS: There would be a cut-off, however, so to speak.

Mr. POWER: Would the loan still be frozen? He might go so far as to pay some of the interest on the loan.

Mr. TOMPKINS: There might be a cut-off, nevertheless, if it is at all comparable to cases I have seen.

Mr. DODDS: Section 84:—

> The bank may lend money to a receiver, to a receiver and manager, to a liquidator appointed under any Winding-up Act, or to a custodian, interim receiver, or trustee under the Bankruptcy Act, provided such receiver, receiver and manager, liquidator, custodian, interim receiver or trustee, has been duly authorized or empowered to borrow, and, in respect of any money so lent, the bank may take security, with or without personal liability, from such receiver, from the receiver and manager, liquidator, custodian, interim receiver or trustee to such an amount, and upon such property and assets, as may be directed or authorized by any court of competent jurisdiction.

Mr. POWER: That is only under authority; but what I am trying to get at is, whether there is any authority under the authority contained in the Trust Deed, or in the general legislation.

The CHAIRMAN: Mr. Power, can you conceive of a case like that, of a trustee walking into possession for the company, if the company has money to carry on? The case has never arisen, as far as I know.

[Mr. C. S. Tompkins]

Mr. POWER: If the company has money to carry on?

The CHAIRMAN: Yes, if the company has money to carry on and pay the interest, because it would be the company's money that the trustee would pay in the case you contemplate. The trustee would never put up his own money, of course.

Mr. POWER: No, no.

The CHAIRMAN: And the only thing the trustee would do would be to go to a court of competent jurisdiction and get authority to borrow on the receiver's certificate, and that would be a fresh loan by the bank, and under the law it would take precedence over all of the property.

Mr. POWER: Well now, the Inspector General says that the old loan to the bank would be cut off.

Mr. TOMPKINS: That is the practice that would apply.

Mr. POWER: Then the interest would continue to accumulate just the same.

Mr. TOMPKINS: It might very easily. The bank might of course have perfectly adequate security to ensure ultimate recovery of both interest and principal. And a trustee might conceivably so conduct operations as eventually to liquidate the old loan with the bank.

Mr. COOTE: In that case, it could be carried as a permanent loan if the interest was being paid.

Mr. TOMPKINS: Yes, and if the security is adequate.

Mr. GEARY: Then come to (*d*).

Mr. POWER: This is a case where there has been no abandonment.

Mr. TOMPKINS: Clause (*c*):—

> (*c*) the bank has commenced an action at law to recover from the borrower the amount of the loan or any part thereof;
>
> (*d*) the borrower has made an abandonment of his estate for the benefit of his creditors or any of them.

Mr. GEARY: Now, Mr. Tompkins, I would like to know what that means? I do not know of any such procedure in our courts. You may make an assignment for the benefit of your creditors.

Mr. TOMPKINS: Might it not be that?

Mr. GEARY: What does "abandonment" mean?

The CHAIRMAN: I think it must mean an assignment.

Mr. GEARY: Well, it should be interpreted, Mr. Chairman, because I do not think there is any such provision known as that, not in our courts.

The CHAIRMAN: You object to the word "abandonment"?

Mr. GEARY: I should like to have it made more specific, that is all.

The CHAIRMAN: I think myself the word "assignment" is better.

Mr. DODDS: Is that Quebec law?

Mr. GEARY: I do not know. Have you got a provision known as "abandonment", Mr. Power?

Mr. JACOBS: We use that instead of "assignment".

Mr. HACKETT: It differs from bankruptcy in that you never get a discharge.

The CHAIRMAN: There is a real distinction then.

Mr. HACKETT: Abandonment of property is a term that you find in the Code of Civil Procedure.

Mr. TOMPKINS: Clause (*e*) reads:—

> (*e*) there is other cause, sufficient in the opinion of the manager of the branch of the bank where such loan is domiciled, or in the opinion of

> any director or officer of the bank who prepares, signs, approves or concurs in such return, statement or balance sheet, for deeming such loan not to be a current loan.

That is the omnibus clause. That obviously covers loans which, for reasons other than are specified in the preceding clauses, are possibly doubtful loans.

Mr. COOTE: Well then, would you deal with (6) immediately following; it seems to me that is rather important.

Mr. TOMPKINS: I forgot that myself, Mr. Coote. I got to the end of the clauses on this page and I thought I had finished. This is subsection 6:—

> (6) Any loan falling within the last preceding subsection may be included amongst current loans if the directors declare that after due inquiry they have approved such loan as a current loan.

The position there is this: A loan may be non-current under one or more of these preceding clauses, and yet there may be security of an absolutely unquestioned character to make its ultimate recovery, with or without interest, assured, and this is to enable the directors to deal with it in an appropriate manner.

Mr. COOTE: I just want to ask, whether it is one of your duties, and would you, in fact, examine into the non-current and current loans, with a view to seeing that these sections are being lived up to?

Mr. TOMPKINS: Precisely. You will understand, of course, that I do not make a check of the smaller loans, and all that sort of thing, but by and large, the big loans are all gone over and a proper survey is made.

Mr. COOTE: Yes. I was going to ask you whether your work was not largely with the larger loans that are made with the banks?

Mr. TOMPKINS: I am coming to that later, Mr. Coote, in a general statement which I will give you.

The CHAIRMAN: Are we finished with this non-current business?

Mr. COOTE: I just asked that question, because I thought Mr. Tompkins was through with his statement.

Mr. TOMPKINS: The only thing further I have to say with respect to shareholders' auditors is, that I am entitled, under section 56 of the Act, to require their assistance, and information from them, and do discuss with them matters of importance concerning each bank's affairs from time to time. In other words, we collaborate on anything that requires our combined judgment.

The CHAIRMAN: Not at arms length, I hope?

Mr. TOMPKINS: Not always.

Mr. COOTE: And that is where I would say your work is connected, principally with the large loans of the banks. Would you care to say what you call a large loan?

Mr. TOMPKINS: Yes, I am quite prepared. I have a statement here of the main evidence given by me before the Macmillan Commission. Of course, it is all a matter of record in the commission's evidence on file. I made copies, in order that it could be filed, or read to the committee. It covers the whole situation comprehensively so that probably it would obviate a good many questions, and I could read it.

The CHAIRMAN: We can put that in the record as part of your evidence.

> Main evidence given at Ottawa by C. E. S. Tompkins, Inspector-General of Banks, before the Royal Commission on Banking and Currency, August 9, 1933.
>
> Prior to 1924 there was no provision for government inspection of banks, reliance being placed upon the monthly returns submitted by the banks, plus the annual examinations conducted by the shareholders'

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auditors. The powers and duties of these auditors were enlarged in the regular revision of the Act in 1923 and requirements as to monthly returns made more stringent, but before these changes came into effective operation the failure of the Home Bank of Canada, followed by an investigation into such failure by a Royal Commission, led to a renewal of previous agitation for government inspection and eventually to the enactment of the present section 56 of the Bank Act, providing for the office of Inspector General of Banks (an officer of the Department of Finance) which received Royal Assent on July 19th of that year. The appointment of the present incumbent was made by order in council of October 31, 1924, effective as from November 1st. Sub-section 8 of section 56 reads as follows:—

> 8. The inspector, from time to time, but not less frequently than once in each calendar year, shall make or cause to be made, such examination and inquiry into the affairs or business of each bank as he may deem to be necessary or expedient and for such purposes take charge on the premises of the assets of the bank or any portion thereof, if the need should arise, for the purpose of satisfying himself that the provisions of this Act having reference to the safety of the creditors and shareholders of each such bank are being duly observed and that the bank is in a sound financial condition, and that at the conclusion of each such examination and inquiry shall report thereon to the minister.

In the beginning the question naturally arose as to the procedure that should be followed in conducting these examinations. There appeared to be no object in creating an elaborate organization and duplicating unnecessarily detailed work already performed by the shareholders' auditors and the banks' own inspectors, provided that work seemed upon inquiry to be efficiently performed, but rather that there should be concentration upon the more vital features of each bank's operations, which would obviously take into account as matters of prime importance the larger individual loaning risks, the position of investment securities and other assets of a substantial character and the general conditions and systems prevailing at the head offices of the respective banks. In practice, therefore, examinations have been confined to the records at the head offices and particular attention has been directed to the quality of all loaning risks in excess of one per cent of the paid up capital of a bank, although the position of many accounts under this limit is often inquired into. It should, moreover, be stated that the shareholders' auditors in the course of their duties carry an examination into the condition of all loans down to a much more moderate figure. For the purpose of the examinations under section 56 the complete head office files are at all times available to the Inspector, including financial statements and other information concerning the various borrowers, and correspondence between the head office, district supervisors and branch managers, together with reports of the bank's own inspectors who conduct detailed inspections of all branches at least once annually. The condition of individual accounts is discussed where necessary with executive officers of the bank and also, if the occasion requires, with the shareholders' auditors as well. The examination, as already indicated, also extends to the banks' investments in government, municipal and other bonds and stocks and to the position of real estate, mortgages and other assets of importance.

It should be pointed out that examinations under section 56 of the Bank Act have never yet been extended to include a physical or detailed check of cash, bank balances, or securities on hand. This is done to the extent required by the Act by the shareholders' auditors, who are all

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accountants of wide experience and ability, whereas the banks' internal inspections, to which reference has already been made, cover a thorough verification of assets and liabilities at all branches at least once a year.

The Act provides that the Inspector " shall be entitled to require and receive from " not only the directors and officers of the bank, but from the shareholders' auditors as well, " such information and explanation as he may deem necessary for the performance of his duties." As a result of this authority and particularly because of conditions in recent years, there has been collaboration with the auditors of the various banks concerning the more important matters which come under review. Due cognizance is naturally taken of the trend of earnings and of the sufficiency of provision for bad and doubtful loans and other assets. In addition to the regular annual examination it is the practice to keep informed regarding important developments occurring in the interim.

All bank returns sent to the Minister of Finance as required by the Bank Act, come before the Inspector for perusal, and if an examination of the monthly statement reveals fluctuations of importance in any particular items, explanations are required from the bank or banks concerned. These returns are also watched for the percentage of cash holdings and general liquidity from month to month. Statements of advances under the Finance Act are available from day to day and the trend of these advances is closely followed, any exceptional borrowings or fluctuations being a matter of discussion with individual banks whenever necessary.

The statute provides that all salaries, remuneration and other expenses incidental to giving effect to section 56 shall be paid out of the Consolidated Revenue Fund under appropriation therefor by parliament, and that the Consolidated Revenue Fund shall be recouped after the end of each calendar year for such outlay by an assessment upon the banks based upon their average total assets respectively during the year, as shown by the monthly returns.

Mr. GEARY: Do you check the amount of bank notes issued, is that your function too?

Mr. TOMPKINS: Do you mean the bank's own notes?

Mr. GEARY: Yes, how many are in circulation?

Mr. TOMPKINS: I take cognizance of those, but the real authority for the supervision of those notes is to be found in section 124 of the Bank Act. Section 124 of the Bank Act gives the Canadian Bankers' Association authority over all matters pertaining to the supervision of the making of the notes of the banks which are intended for circulation, and their disposition, destruction, etc.; but that does not mean that that does not receive attention by me as well.

The CHAIRMAN: That does not cover the amount of the issue of the notes. What he is asking for is, what check is there on the banks to show whether they are having more circulation outstanding than the law gives them the right to have; what checks is there on that?

Mr. TOMPKINS: Mr. Ross can explain that to you quite fully.

The CHAIRMAN: Would you, Mr. Ross, just in a word?

Mr. ROSS (Secretary, Canadian Bankers' Association): Mr. Chairman, as every bank is responsible for the notes issued by the other banks, to a limited extent, under the section referred to, a report is made by the Bank Note Companies to the Association of the notes they deliver to the bank. A record is

sent to us and sent to the bank. That is entered in our books. Then when the bank does destroy notes, under the By-laws covering the matter, three directors appointed under the By-laws certify to us the amount of notes destroyed, so that we have a balance sheet running all the time in our books. We have to go back forty years to the beginning of it. An inspection takes place by the Association each year of the circulation accounts of the bank, and in the returns from branch offices, all the branches of the bank, there is an item of notes outstanding. These are all added together, and that with the notes in the possession of the bank, or kept at head office, all certified by auditors of the bank, is the best evidence available. That is deducted from the notes the bank has received, and gives the balance of the notes outstanding.

Mr. Geary: But suppose there were two or three thousand dollars of brand new bills that it has not issued?

Mr. Ross: That is included.

The Chairman: Gentlemen, we will adjourn, shall we say until ten o'clock on Tuesday?

Mr. Jacobs: No session to-night?

The Chairman: No.

The Committee adjourned at 6 p.m. to meet again Tuesday, May 1, at 10 o'clock a.m.

HOUSE OF COMMONS,

May 1, 1934.

The Select Standing Committee on Banking and Commerce met at 10 a.m., Mr. R. B. Hanson in the Chair.

The CHAIRMAN: Mr. G. G. McGeer, K.C., of Vancouver has journeyed across the continent to present to this committee and the country certain views which he holds. Mr. McGeer has not been invited to attend before this committee, but, being in Ottawa, he would like to be heard, and I would ask the committee if it desires to hear Mr. McGeer at this time. (Agreed.)

I should like to say this to Mr. McGeer: This committee has two very definite duties to perform; namely, the consideration of Bills 18 and 19. There has been no other order of reference to this committee, and anything that we touch on outside those references would be foreign to our inquiry. There will be no attempt made to limit Mr. McGeer in any way, but I would ask him to consider the task that we have before us, and to be as considerate as possible.

Mr. Dodds has a statement he would like to hand in.

Mr. DODDS: Mr. Coote, at page 576 of the Minutes of Evidence, asked this question: "How many banks have been closed in Canada in the last three years would you think—that is branch banks, branch offices?" I have a statement which I shall hand to the secretary to be filed. (See Appendix "A C".)

Mr. G. G. MCGEER, K.C., M.L.A., called.

Mr. Minister, Mr. Chairman and members of the committee, I appreciate what your chairman has said with reference to the nature of your inquiry. I appreciate the necessity of dealing with the problems of to-day in a practical way, having in mind the definite limitations that are, in the nature of things, imposed upon parliamentary committees. I should like to say at the outset, Mr. Chairman, that I come before the committee as a public man and as a politician; and I approach this subject more from the point of view of one who, in public life, has tried to solve some of the difficult and perplexing problems that confront all governments in finding the means of financing those demands which are now being made upon all forms of government by the public at large. The necessity for changing our attitude on what might be considered long established practices of financing government and of managing our financial system in general, was recognized by the Macmillan committee which investigated the very problem that is before this committee now, that of finance and general economy.

Hon. Mr. MACKENZIE: The English committee?

The WITNESS: The English committee; and I would like for a moment, in opening, to refer to their recognition of the necessity of changing our attitude and our outlook. After dealing with the impossibility of continuing the era of laissez-faire, the committee says, at page 4, a portion of section 8:—

> The most distinctive indication of the change of outlook of the government of this country in recent times has been its growing preoccupation, irrespective of party, with the management of the life of the people.

[Mr. G. G. McGeer]

> A study of the Statute Book will show how profoundly the conception of the function of government has altered. Parliament finds itself increasingly engaged in legislation which has for its conscious aim the regulation of the day to day affairs of the community and now intervenes in matters formerly thought to be entirely outside its scope. This new orientation has its dangers as well as its merits. Between liberty and government there is an age-long conflict. It is of vital importance that the new policy, while truly promoting liberty by securing better conditions of life for the people of this country, should not, in its zeal for interference, deprive them of their initiative and independence which are the nation's most valuable assets.
>
> The lesson of all this for our present purpose is that in the case of our financial, as in the case of our political and social, institutions we may well have reached the stage when an era of conscious and deliberate management must succeed the era of undirected natural evolution. There are, as we shall see, already signs that the necessity for such a change of outlook is coming to be realized. The foundations of our financial system are being re-examined. Dogmas hitherto regarded as canonical are being questioned. The feeling is growing that our former easy-going ways will no longer insure our prosperity in a crowded and increasingly competitive world.

Now, I want to deal to-day with the foundations of Canada's financial structure, and I do not propose to go further than to deal with the administration of public credit and public finance. In what I have to lay before you, I do not propose or suggest that we should interfere with the business of merchant banking. There is no reason, in our system, why the business of merchant banking should not be carried on in much the same way that it is carried on now, serving private interests, but when it comes to allowing the private merchant banker to take charge of and administer the public credit as a private profit-making monopoly, then that is something that all public men have a right to concern themselves about, under the system that we are now operating, we are actually farming out the public credit of the nation to a group of individuals who are administering it with two objectives in mind; first the private interest of the private monopoly and second, the maintenance of the consumer's buying power and the sustenance of the ability of the taxpayer to pay, this unfortunately has been allowed to come off a very bad second. So badly has that second run, that we now find from one end of the dominion to the other, municipal, provincial and national bankruptcy is everywhere apparent, and the social system is completely disrupted, a disastrous decline in the volume of business, forces all to consider not only what can be done, but what must be done if we are going to sustain any decent standard of living.

Now, I published some views which I hold in a document which I was pleased to entitle "The Conquest of Poverty". That document, I might say, was sent by a friend of mine to Arthur I. Judge, the editor of "The Canning Trade," of Baltimore, Maryland. The Canning Trade is a journal that started publication in 1878 and is now recognized as one of the outstanding journals of that important industry in the United States.

Mr. Judge has been publishing some articles of his own, and he thought sufficiently of the plan which I had offered for Canada, that he published it in this pamphlet called "Let's Talk Money" and was kind enough to send 100 copies to this committee for distribution among its members.

I may say that in addition to the views that I presented, the views expressed by Mr. Judge have a very large support in the United States, and they give you some indiction of the trend of affairs in the Republic to the

south. He has published this pamphlet, not only for the purpose of enlightening the members of the canning trade, but he has circularized the senate and the congress of the United States with it. I should just like to read from one section, which summarizes my own views fairly succinctly.

Mr. Sullivan: What page?

The Witness: Page 54, of "Let's Talk Money and Banking." It is as follows:

> For almost a century the management of the monetary system has been entrusted in blind faith and absolute confidence to bankers and financiers. Their managament has ended in more disastrous failure than those opposed to the English Bank Act of 1844 ever dared to predict.
>
> Necessity now compels us to abandon banker management and to resort to national administration of public credit and national regulation and supervision of the monetary system.
>
> In the restoration of these prerogative powers to responsible government lies the way of establishing Democracy in the place of the oligarchical rule that banker dominion over government and trade now maintains.
>
> By such changes, the elected representatives of the people will become the masters of the "economic bloodstream" of the nation, and responsible government as an expression of Christian Democracy can be maintained.
>
> No one has any right to say that the establishment of such a democracy cannot or will not produce both progress and prosperity until it has been given the same trial that banker rule by banker management of the monetary system has enjoyed.
>
> Responsible government must now destroy banker rule, or banker mismanagement of public credit will destroy responsible government and the civilization that brought it into being.

Col. Robinson: That applies to the United States. That applies to the United States' banking system, not ours.

Mr. MacMillan (*Saskatoon*): That is meant for the United States.

The Witness: That is my letter, written in the document entitled "The Conquest of Poverty," and published for Canada. My friend asked, why was this document published in the United States. It was published in the United States because a leading editor in the United States thought enough of my work in Canada to present it to the American public.

Mr. MacMillan: Who is that?

The Witness: It is not published by me, but it is an example of the intelligence of the American people in accepting Canadian thought on matters of this kind. You leave me alone and we will get along all right.

Mr. MacMillan: I object to that statement, Mr. Chairman. There is no reason to make such a remark to me at all.

The Chairman: Possibly Mr. McGeer did not intend the remark in the way you took it. I suggest that Mr. McGeer be allowed to proceed without interruption to the end, and then you can shoot as long as you like and as hard as you like.

The Witness: I would be perfectly willing to deal with any question when I get through; but you gentlemen can make your own rules, it does not make any difference to me.

The Chairman: Proceed.

The WITNESS: Now Mr. Chairman, in advancing the views I hold, as a representative for Vancouver-Burrard in the provincial legislature of British Columbia, I brought the Bank of Canada Act, which is now before this committee, before our legislature. It was referred to the public accounts committee. That committee unanimously reported the following resolution to the legislature. It is reported in the Votes and Proceedings of British Columbia on March 20, 1934, under the title Currency, Credit and Unemployment.

> Whereas the money value of the interchange of services and commodities in the domestic trade of the people of the Dominion of Canada has fallen from more than $46,000,000,000 in 1929 to less than $30,000,000,000 in 1933; and
>
> Whereas the said decline in Canadian domestic trade has been attended by a disastrous increase in Canadian unemployment; and
>
> Whereas the Canadian domestic and internal trade, wages and prices, persist in remaining in an unhealthy condition; and
>
> Whereas under the Canadian constitution the parliament of the Dominion of Canada enjoys an exclusive jurisdiction in the matter of the creation, issue and circulation of the money and credit purchasing power of the people of this and all other provinces of the Dominion; and
>
> Whereas the taxation now levied by the National and provincial governments and municipal authorities, is imposing a burden of taxation that in many instances is destroying and confiscating the taxpayers' wealth; and
>
> Whereas operations of private enterprise have been curtailed through lack of consumer purchasing-power; and
>
> Whereas measures adopted with respect to unemployment have been entirely inadequate; and
>
> Whereas the payment of allowances without service rendered is creating a condition detrimental to individual welfare, and prejudicial to the public interest; and
>
> Whereas it is obvious that salutory collective power should be used to meet the situation, with which individual effort is unable to cope; and
>
> Whereas it is the opinion of this House that Bill No. 19, being an Act to incorporate the Bank of Canada, and now under consideration by the Canadian parliament, wherein it is proposed to grant to a privately owned corporation, among others, the following powers:—
>
> (*a*) To control and regulate Canadian credit and currency;
>
> (*b*) To control the external value of the national monetary unit;
>
> (*c*) To manage in part the general level of Canadian production, trade, prices and employment;
>
> (*d*) And to manage in part the economic and financial welfare of the Domnion,
>
> is not in the best interests of the people of this province or the people of Canada as a whole—
>
> Therefore be it resolved, that this House is of the opinion that a national banking system should be established for the purpose of making national, provincial, and municipal credit available to sustain the circulation of an adequate volume of purchasing-power medium of exchange, and that national, provincial, and municipal credit should be used to relieve the existing burden of taxation and unemployment and to assist in a re-establishing and maintaining the prosperity of the Canadian people.
>
> And be it further resolved, that this House go on record as favouring a definite scheme of effective co-operation between national, provincial,

> and municipal governing authorities and the proposed national banking system for the purpose of using public credit as the purchasing power medium of exchange necessary to defray the expense of maintaining a broad program of constructive, useful wage-distributing public enterprise, and, as the means of defraying the expense of maintaining the good government of this nation, its provinces, and all local communities and the social services that are essential to maintain the education, health, peace, contentment, and liberty of all Canadian citizens with the minimum of expense to the taxpayers throughout the land.
>
> And be it further resolved, that copies of this resolution be forwarded to the members of the Canadian parliament, to the members of the legislative assemblies of the other provinces in the Dominion, and to the representatives of all local governments in the Dominion.

This resolution was unanimously passed by our legislature on the following day. By this course we have taken banking and finance out of party politics in British Columbia. Liberals, Conservatives, C.C.F.'s, Socialists, everyone united in endorsing and declaring that the time had come when the public administration of public credit should be adopted as the basis of financing government in the Dominion of Canada.

May I now deal with your Bill 19. You are all familiar with the preamble and you all, no doubt, are familiar with all of the various provisions in that bill. The Act is based upon the general principle of the English Bank Act of 1844. In my opinion, it gives more of power to the banker, leaves less of power in the government, and gives less to the consideration of the public needs than the Bank Act of 1844 contained. It must be, that such a Bill is based upon the assumption, that a gold standard banker managed private monopolized money system, such as was inaugurated in 1844, has proven in the intervening ninety years to be a success. Therefore we, in Canada, are willing to adopt even a tighter form of legislation and to continue to accept the principle of private administration of public finance.

You will find, if you care to examine the provisions of the Bill before you with reference to note issue, and with reference to reserves, that the English Bank Act, as amended up to 1933, is not adopted; you will find that this Bill provides for an exclusive monopoly of the management of the nation's gold and all monetary gold reserves are handed over to a private corporation. You will find vested in a private corporation an absolute monopoly of the right to issue money in the form of legal tender paper currency. You will find set up, in Section 25, a provision which says that the Bank of Canada cannot issue legal tender money or hold deposits unless it has 25 per cent of the amount of the issue and deposits in gold, or a substitute for gold in the form of foreign money. In the main foreign money is no longer convertible into gold.

Well now, just follow the logic of that proposition through. And what I want you to get in your mind, if you will follow me close enough, is that about 90 per cent or more of the economic theories and canons that the Macmillan Committee recognized had to be re-examined have no foundation in fact. You have often heard it said that governments must borrow money because you cannot make money out of nothing. And everybody, parrot like, repeats that piece of shallow nonsense, although right in this Act you give the Bank of Canada power to do what? Power to create money out of nothing. Now in proof of that fact, well let me ask you this one simple question: If the bank with $25 in gold has the power to issue $100 in money, on what does it issue that $75 above the value of gold? It creates that $75 worth of currency out of nothing but the power that parliament gives to the Bank when it passes an Act authorizing the Bank to issue paper money.

Mr. Chairman, this Legislation must result in the creation of the most weird of all anomalies: The government with power to create money passes a law creating a private monopoly authorizing it to create money and then goes bankrupt borrowing that money at interest. Is that the wisdom of intelligent men, or is it the economy of a lunatic asylum? Just imagine a government in this enlightened age creating a private monopoly and authorizing it to create money and then going bankrupt and ruining the progress of this civilization by borrowing that which is created by its own servant. There you have a concrete example of the bankruptcy which is inevitable when Legislators accept the mumbo-jumbo views of conventional finance which is intended to make the servant the master of the house. By adopting the fetishes of orthodox finance you have created, in the name of sound money the most vicious credit racket that ever blighted the democracy of self governing people. Surely in this enlightened age we will not find progress by going back to 1844. Speaking as a politician and a public man, I cannot help but say that this Bank of Canada Act indicates that our natural resources in political stupidity in Canada are as yet barely scratched. I do not wonder that my friends the bankers laugh at us. They ought to; we have it coming to us.

Now, here is the kind of thing that we get in sound money. Back in 1907, they had a collapse in the United States, and they started on an investigation to find out what to do with the money system. Senate and Congress developed the idea that something was wrong, and they finally appointed a commission, and the commission went to England. There is a question that the commission asked the governor of the Bank of England to find what the Bank of England really did. And the answer was " The Bank of England regulates the conditions under which the trade of the country is carried on." Now, you keep that answer of the governor of the Bank of England in mind and then read your preamble, and you cannot help but agree that you are creating a private monopoly and establishing a governor of the Bank of Canada who is going "to regulate the conditions under which the trade of the country is carried on". Any time you put the managament of your money—either as an individual or a nation—in the hands of anybody else, you can make no mistake about it, my friends, the one who is running your money will control the course of your own activities.

In 1932, the National City Bank of New York published a statement which was repeated by The Canadian Bank of Commerce. You might remember, that the National City Bank of New York got a little special advertising through the activities of its president, in connection with certain matters that were investigated by the Senate Banking Committee of the United States. But, in any event, this report says:

> "The lessons of experience and the common judgment of students of the subjects of money and credit everywhere have led to the universal policy of entrusting to banks the responsibility of managing the money system.

Unfortunately, all banks are not as careful as they might be, and some of them are actually honest enough to tell the truth occasionally. In February, 1932, the Royal Bank committed that indiscretion. It said:

> The present depression is usually explained in terms of extravagance, over production, excessive tariff barriers, etc. In varied degrees these, as well as other contributing factors, produced situations which were essentially unsound, but speaking generally the controlling influence has been the mismanagement of money and credit.

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Let me ask, the mismanagement of money and credit by whom? By the men who are responsible for the management of money and credit in England, the Governor of the Bank of England and his associates; by the men who are responsible for the management of money and credit to the United States, the men in charge of the Federal Reserve Bank which is modelled on the Bank of England, the original Central Bank inaugurated. The Federal Reserve banking laws adopted in 1914 by the United States were moulded after the British Acts. Therefore the central bank system has been in operation since 1914 in the United States. In the Dominion of Canada, while we have not had a central bank we have the Department of Finance, the Treasury Board, the Bankers' Association of Canada, operating our money system by processes that were directly in line as far as they went with the policy laid down by the Bank of England. Now, the great mistake that we made in our Canadian finance, in so far as that established system was concerned, we ignored foreign exchange. We left this very largely to the bankers of New York. The English central banking system was designed, primarily, to make London the centre of world finance, to have on deposit in London more gold or less gold than London owned, but to have this work out in this way: The proposal was to lend credit to be payable in gold, to have on deposit credit payable in gold. England maintained her successful position by adopting the principle of trading short by always being hedged so that there would be more credits payable in London in gold than against London output. That system worked very well until Russia repudiated, until Germany went bankrupt, and Austria followed suit. Then England's hedges fell down, and England was bankrupt on her gold obligations to depositors other than Germany, Austria and Russia, and through her gold obligations to the United States. England, as a result of her hedges falling down, has proven that with even the best kind of management there can be no degree of certainty that the gold standard money system can be operated with success.

What did we in Canada try to do? We decided that we could finance by borrowing credits abroad. We never hedged; we did not take the precaution of lending Canadian credits abroad repayable to us in gold. Under banker advice our governments, up until the war, national as well as provincial and municipal governments, went to foreign money markets and borrowed credit repayable in gold with interest. Under that system we could not possibly escape national bankruptcy. We have piled foreign gold debts and we are still increasing them, until to-day we owe something over three thousand million dollars abroad payable in gold. I think it would not be unfair to say, that if we add our exports of gold to our exports of goods, that we are not balancing the claims of our foreign creditors for interest and principal accruing from time to time. The misguided policy that we have followed has placed us internationally in bondage, not for this generation, but for an indefinite period of time.

I have not been able to get the exact figures of what our total interest charges on public and private debts abroad are, but I am willing to make a guess that we are not balancing our budget against our invisible obligations at the present time.

We should know by now that we cannot operate a national banking system or administer public credit in Canada on the assumption that we can borrow credits abroad payable in something which we do not possess and cannot secure. We cannot in this country operate by depending on the international money system unless we hedge and protect ourselves by lending credits against our borrowing; the principle of trading short cannot be successfully used in any other way. But even if you had the experience of England and her bankers' knowledge of financial affairs you have got to recognize that even then you would not be safe.

The idea that the gold standard money system is sound has never been of universal acceptance, and to-day, in view of its failure, it has come under definite and quizzical examination. England has abandoned the gold standard completely in so far as payment is concerned. She completely repudiated all obligations to pay in gold in 1931. In 1925, she repudiated the gold standard as a security for the value of paper currency by making the pound sterling legal tender but not convertible into gold. If you were to take a pound sterling into the Bank of England and ask the banker to-day for a pound he would not give you a gold sovereign, he would give you another paper pound. The pound sterling is not redeemable in gold. If you want to buy gold in England you have got to buy it in a slab containing 400 ounces, which was worth in 1925 at the standard price of gold something more than $8,000. And you have got to carry it away in the one package; they will not break it up for you, and they will not let you break it up into money. But you have to do more than that. You have got to get permission from the government to buy it; you have got to get permission from the government to hold it; and if you want to ship it out of the country, you have got to get permission of the government to do that. The actual administration of gold is a governmental monopoly, and yet in spite of that experience we, in Canada, are contemplating and proposing in this Act to fasten the gold standard of 1844 on to the Canadian people. Let me explain to you just what you are doing. In that connection may I refer to the pamphlet "The Conquest of Poverty," in which I discuss at some length the gold standard, I am just going to refer the members of the committee to it briefly, because I think you all have copies of that document in your possession; at page 99 the gold standard is discussed, and I point out:—

> The men who established the existing monetary system by securing the passage of the Bank Act of England in 1844 cleverly used that doctrine and the public's desire for sound money to their enormous gain. They conceived the idea of using the nationalization of money for the purpose of maintaining a money shortage. In the course of time this was accomplished by reducing the legal tender value of silver and copper coins to a nominal amount; by restricting the issue of national full legal tender paper currency to a percentage of the monetary gold reserves available; and by withdrawing gold coins from circulation. By freezing the issue of national money to gold, the laws passed by parliament at the instigation of bankers created a situation under which a shortage of money was assured, thereby compelling government, corporation and individual to use a substitute for money.

Here we have the basis of the modern banking practice of substituting bookkeeping entries, and transferring them by cheque, for money. While it is quite true the bankers call their bookkeeping entries bank deposits the fact is that they consist of nothing but statements of account in the form of promises on the part of bankers to pay something which they did not have and which they could not secure. I would like to so submit the "Conquest of Poverty" with the request that it be printed as an appendix to my evidence. That will save me from going through a good deal of this material. (Not printed as an appendix.)

Now, let me show you how the cheque system is worked out. I am submitting, that the gold standard is a trick by which governments are induced to create a shortage of money, and that the purpose of that trick is to compel the government and everyone else to use a substitute for money which only bankers can create in the form of fictitious bank deposits. By freezing the power of government to create national currency in gold the banker forces you to borrow bank credit, and, like one who sits as a toll gate keeper on the highway of progress, the banker exacts from every dollar that goes into progress and prosperity an

unrighteous proportion, for no other service than that of operating a vicious privilege that he gets from the government. There may be other ways of committing economic suicide but none are more effective.

How has the gold standard money system worked out in the world? Let me give you the world figures from the League of Nation's Economic Secretariat Year Book:—

Gold	$ 11,500,000,000
Legal tender money	16,000,000,000
Bank deposits	111,000,000,000

The bankers owe their depositors ten times the amount of gold in the world and seven times the amount of real money in existence. Professor Soddy in his book "Money versus Man" condemns the system by saying:—

> The gigantic interests in the private issue of money have always pretended it is the public that insists upon there being something behind paper and credit money. But during the war the change from gold coins to paper currency was effected without the public being the least disturbed; in fact, it may be said that they welcomed the change. The moneyed interests are always trying to persuade the public of the unsoundness of any kind of money they have not the issue of.

The public never asked—and does not ask—what is behind a cheque or what is behind a bank bill, what is behind silver; all that you hear about the public demanding gold as a security is but a part of the propaganda of the banker who wants to use gold for the express purpose of maintaining a shortage of money.

Dr. William A. Shaw, who was editor of the Treasury Calendar, and the man who in the British Finance Department worked out an exchange system between Egypt and Great Britain, and maintained in that system effective operation of English Egyptian money without a single waiver in the rate of exchange, and without the least difficulty, says this:—

> Nobody troubles his head about the convertability of the note or its security or its redemption or any other similar abstraction.

And the Macmillan Committee in 1931 said this:—

> It is not necessary that the volume of note issues should continue to be regulated as it is now by reference to the amount of gold held in reserve. Gold should be held primarily to settle international balances and not to support domestic note issues. There may be no obstacle to the creation of a much increased volume of purchasing power without any increase in the supply of monetary gold.

Mr. George E. Roberts, Vice-President of the National City Bank of New York, and a man who was used by the League of Nations' Monetary Committee as one of the experts on gold, published a pamphlet in which he says:—

> I have already said that gold has passed out of use as a circulating medium, and venture to say that this inaugurates a fundamental change in the use of gold in monetary systems. Gold is no longer required for any monetary use except as the standard of value and for the settlement of balances, and the last statement may be limited to international balances. Take notice of what a change this signifies from our old conception of gold as a reserve against all currencies and bank deposits in the minds of some persons; even the basis of all private contracts and business; in fact, business is not based upon gold in any such sense as that.

Now, Mr. Chairman, these are opinions, not of cranks in the money business, not of stupid men who like to ape the role of the glib reformer, who strive to reap a little of that very visionary thing—popular approval—by advocating banking reforms. What I am pointing out to you is, that in the United States and in

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Great Britain, the very thing that you are now proposing to fasten on to the people of Canada, this gold standard money system, is openly repudiated by men holding positions who are in a place where they can speak with the voice of unquestioned authority. The Macmillan Committee Report of England is a very different thing from the Macmillan Committee report of Canada, but not very much different from the Canadian Macmillan Committee as presented by Mr. Beaudry Leman, a Canadian banker, and by Sir Thomas White, not only a Canadian banker but a former Canadian Minister of Finance. You find very startling conflict between the conclusions of your two Canadian financial representatives and a British law lord and the director of the Bank of England who wrote the report you are adopting. You have, on the one hand, liberalism in banking coming from Mr. Leman and Sir Thomas White—probably not liberalism as we know it in politics, although Mr. Leman and Sir Thomas make some rather startling statements for bankers. They do repudiate the orthodox money system of the gold standard as presented to you by Lord Macmillan and Sir Charles Addis. The proposition you see adopted in the Bank of Canada Act is flatly repudiated by your Canadian bankers on the commission just as it was repudiated by Reginald McKenna, John M. Keynes, and a host of other men who were on the British Macmillan Committee and who could not agree with Lord Macmillan.

I would like to file, if I may, with Mr. McEvoy, the pamphlet " Money and Credit and its Management," and to request that it be printed as an appendix to my evidence. That will also save me from referring to matters in it, and will shorten my presentation. For those of you who are interested in what I have to say, I may say that I undertook my studies not for the purpose of competing with economists, but with the thought that every public man in Canada should know something about the money system. I read a great many books, and I spent countless hours in study. What I have tried to do in "Money and Credit and Its Management," and in "The Conquest of Poverty," is to present the views, and my reasons for them, that I thought would be of service to public men. In putting my own efforts into these pamphlets I have tried to save other men a great deal of needless waste of time in wading through an enormous bibliography, most of which is not understandable either to the men who wrote it or to the men who may try to read it. (Not printed as an appendix.)

Now, I want to attack—and if I may, Mr. Chairman, I want to spend a little time on it—this current idea, or the idea that is very strongly presented to the public by bankers that the gold standard money system is generally endorsed by competent opinion. That is not true. In recent times business men are becoming a little more bold, and they are coming out more openly with the expression of their views. The thing I want to refer you to is not to the action of the British Labour Party which has definitely declared at its last conference for the nationalization of the Bank of England—that is well known as a more or less orthodox attitude—but the thing that I want to draw your attention to is the attitude of the London Chamber of Commerce which is now flatly declaring against the gold standard banker-managed money system. On December 24, 1932, in the London Times newspaper, of all places, the secretary of the London Chamber of Commerce said:—

> The fiction that a paper pound note would not be generally acceptable unless it were possible to convert it into gold was finally exploded as long ago as 1925. In that year the right to demand gold for the pound note was taken away by act of parliament, although it was still possible to buy a bar of gold with paper pounds if you happened to be the owner of £1,600. So far as most people were concerned, their paper pounds were inconvertible, because they were not in that happy position. Nobody, in consequence, looked next day at his paper pound, and

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wondered whether his grocer would honour it, for the sufficient reason that the paper pound being legal tender, the grocer had no option. Since September 21, 1931, it has not even been possible to obtain a bar of gold, but, again, there has been no wild panic.

It is difficult to understand what satisfaction the public are supposed to derive from knowing that a third of the note issue is "covered" by bars of gold, which in no circumstances can be touched, and that the other two-thirds are "covered" by securities which could not be realized in the event of a collapse of confidence and credit so complete that citizens would refuse to take one another's paper pounds in spite of the legal obligation to do so. In normal times nobody wishes to convert his money claims into gold. In time of crisis when, in theory, everyone might be expected to want to do this, it becomes mathematically impossible. In practice the nation always comes to the rescue of the system in times of crisis by declaring a moratorium. This was done in 1847, 1857, 1866, 1914, and again in 1931.

It will be seen that every assumption upon which the gold standard system rests is a fiction, and yet its supporters have the temerity to defend it on the ground that it ensures "sound" money. Whatever else may be claimed for the system this cannot be substantiated.

Now, the London Chamber of Commerce proceeded to attack this system, and has continued to attack it in a series of articles which I recommend to the committee. I suggest they write to Mr. A. de V. Leigh, the secretary of that body, and secure a sufficient number of copies so that every member of this committee may have one. You can cable for them to-day and they will be here inside of a week. Let me just draw your attention to a few extracts from what they have to say. On March 25, 1933, they say:—

Next, the money of the country is supposed to be convertible into gold. To show that this is pure fiction it is merely necessary to state that the paper note issue of this country is, in round figures, £400,000,000, and bank money £2,000,000,000, whereas the gold into which this sum of £2,400,000,000, is alleged to be convertible is £166,000,000. Under normal conditions the people do not wish to convert their money into gold, and in abnormal times, when they might be supposed to desire to do so, it is clearly quite impossible, and a moratorium is invariably declared.

Gold is also believed to act as a regulator for the currency by ensuring that it shall be expanded only when the Bank of England acquires gold. Apart from the fact that, as a regulator, the fortuitous arrival and disappearance of gold is completely unscientific and has little, if any, connection with the needs of producers and consumers, the open market policy is now a regular feature of the system.

And is operated without any relation to the amount of gold in the possession of the banks.

Another popular fiction is that the fluctuations in the international exchanges truly reflect the trading position of the nations. The recent experience of this country should have exploded this theory. But for the vigorous use of the Exchange Equalization Fund, sterling would have risen by leaps and bounds merely because the citizens of the United States, having lost confidence in their own currency, were selling dollars and buying pounds. This had nothing whatever to do with the trade position of this country, nor for that matter with the trade position of the United States, but was due solely to monetary causes.

And to the detriment of the real trade of both nations.

The London Chamber of Commerce is coming to grips with the real problem. They want a new deal from the government in the management of money and trade.

The old days when governments could not control financiers and manipulation of currency are now over. Once your government advances to the point where it can say to a man, "You can't hold gold, you can't ship gold, you can't buy gold, you can't export gold," then, Mr. Chairman, you establish a power in government which prevents the manipulation of currency—if you want to exercise it. You have the power to stop money dealing to the detriment of humanity, wealth producers and distributors. Surely it is a very foolish thing to think that, because men, two hundred years ago—in the days of John Law, in the days of assignats, in the days of continental money—who, working with the preliminary experimentation of substituting credit for money, did not know how to use the machinery of government for the purpose of controlling those forces that wanted to use money as an instrument of appropriation, we cannot control them to-day. It is a very great mistake, I repeat, to conclude that we are still, in so far as the essence of government is concerned as impotent as men two hundred years ago were. We can control these things if we want to. We can stop a flight from the Canadian dollar. We can stop men in New York and London from wrecking our internal economy by disturbing the buying power of our dollar in the markets abroad. The London Chamber of Commerce, recognizing those facts and that the gold standard system will not serve the trade of England, unhesitatingly condemn it and demand something better. In July, 1931, in its official publication, dealing with the folly that took place at the World Economic Conference, it said this:

> That the conventions of the international gold standard system are so fundamentally opposed to modern social and economic conditions that no government could, even if it wished, give effect to them, must be evident to anyone who is prepared to recognize that he is living in the twentieth, and not in the nineteenth century—
>
> The international gold standard system is an anachromism in the twentieth century; it can never again function, but as its high priests still hold sway over the nations and regard it as sacriligious even to discuss alternative systems, there appears nothing for it but to await the further inevitable collapse of the structure built upon it—
>
> Having evaded recognition of the root cause of the trouble which, as has been consistenly stated by the London Chamber of Commerce for the last eighteen months, is a vicious monetary system, the conference will now concentrate upon trying to mitigate effects. The problems of tariffs, exchange restrictions and quotas, cannot be solved until the monetary system has been reformed, nor can prices be raised and stabilized.

These statements, coming from that body, should not be ignored simply because a "law lord of England and a director of the Bank of England" come over here and write a report advising us to adopt something that has been tried and found wanting and that is repudiated by three Canadian members of Canadian Macmillan commission. The article continues to say:—

> Under the gold standard system, England passes a law by which she announces to the world that her pound contains 113·016 grains of gold. Canada passes a law announcing that her dollar contains 23·22 grains. Both these statements are pure fiction, as will be readily seen when it is remembered that the world stock of monetary gold is approximately equal to the amount of money in use in Britain alone. On the strength of this fiction, 4·86 Canadian dollars are stated to be worth £1.

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> It would be just as convenient to agree with Canada that 4·86 dollars equalled £1 or any other number which would give us both equilibrium with the rest of the world, without the intervention of this hypothetical gold.

In spite of that statement made in July last year, we are now in Canada contemplating fastening the gold standard system onto the people of Canada. They are concerned not so much as we are with the internal buying power of the dollar. England is more concerned with the external buying power of the dollar. At the present time—whatever they may develop in the future—they are not nearly so able to support and sustain themselves as we are, and they examine the gold standard with a great deal more concern than we need to. Therefore when the London Chamber of Commerce speaks, it speaks for the traders, industrialists and the commerce of England and we should pay attention to what it says. In October, 1933, they said this:—

> As the Chamber has consistently stated for nearly a year and a half, the root cause of international fear and hostility is to be found in the international and national monetary systems. Internationally, the nations must have active "favourable" balances in order to gain the disposition of gold or gold currencies. Those who are successful in this struggle are able either to take gold from those nations with "unfavourable" balances, or to compel them to borrow the difference and so get more hopelessly into debt.

Have we been doing that in Canada during the last three years? Did we go down to New York and borrow $60,000,000 to bolster up our exchange rate? Have we hopped our interest rates up, or our interest charges, from $121,000,000 in 1921 to $139,000,000 in 1934? Of course we are trying to do what the London Chamber of Commerce says cannot be done under this gold standard monetary system; and to guarantee that we will go deep into bankruptcy. The government proposes to fasten the gold standard onto our nation in a worse form than any country has ever adopted. We have learned nothing from the fact that to every nation that has tried it has been brought disaster. We are making our international trade position utterly impossible. Whether we like Russia or not, we have got to compete in world markets with Russian lumber and innumerable other Russian products; and five years from now we will probably be competing in a lot more things that Russia may be putting on the world market. We have also got to compete with an active and aggressive Japan. The gold standard will prevent us from meeting that competition. Whether you like the Douglas theory or not, don't make any mistake about it, Major Douglas went out to Japan three years ago and the Japanese listened to everything that he had to say, studied his books and worked out their own application of his theories. To-day Japan is managing money and her international trade.

This is what the London Chamber of Commerce said in regard to that situation and what was then said last October, has largely come to pass.

> It is quite evident that if Germany's export trade continues to diminish, the time will come when the external value of the mark will be, once more, in danger. Germany has no intention of going through uncontrolled internal inflation twice in one generation, and having regard to the trend of German thought in the last few years, it would not be surprising if she then declared all external trade to be a state monopoly. She would sell her goods abroad just as Japan, just as Russia does; she would acquire pounds, dollars, francs, etcetera, for those sales, and with them would buy her necessary imports. There would be no exchange rate for the mark, just as there is no exchange rate for the rouble.

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> Germany's industry could then be put to work at 100 per cent of capacity and the surplus production thrown on to the markets of the world at the price it would fetch. Japanese and Russian undercutting would be mere child's play compared with what would be done in this way by industrial Germany.
>
> It is equally evident that France could not, under such conditions, remain on the gold standard.

Now, I go a little farther than Mr. Leigh in my conclusions in regard to Germany adopting what Russia and Japan are putting into effect. I don't see how any nation whose credit is based on the banker-managed gold standard system can compete with Russia and Japan, whose public credit is available without cost to the producers of exportable wealth in those countries. Germany did that very same before the war, and Germany is again doing it now. Yes, our civilization can disappear. We can be swept away by active and aggressive competitors. When we see with indifference our position of world leadership we are in danger. Mr. Chairman, we should not forget that there are only about 80,000,000 white people of British origin in the British Empire. There is somewhere in the vicinity of 600,000,000 people in our Empire. Our leadership in the 20th century is that of 80,000,000 of people in a world of 2,000,000,000 active people. Yes, we have a right to be proud of the position we hold; but we should not make the mistake that brought Ancient Rome to defeat by farming our public credit out to bankers and financiers, and allowing them to bring us to disaster in the same way that Rome was brought to disaster through farming out the revenues of the nation to the publicani, and allowing the publicans to extort in profit an unrighteous proportion of the wealth of other vicious systems by collecting taxation. Once you appreciate the analogy between the disaster that the publicani brought to Rome, and the disaster the modern banker and financier is bringing to this civilization, you will see that the process then and now is almost identical. They farmed out the revenue. They made the banker go out and do the dirty work of collecting the taxes. We simply hand over to the financiers and bankers our bonds. They monetize them in a bookkeeping system, and then our governments go out and do the dirty work of collecting the taxes and handing the profits over to the financiers. In the legislation proposing the Bank of Canada, we have not only gone backward from the days of 1844, Mr. Chairman, but we are travelling behind the misguided rulers of Rome that were operating 2,000 years ago. Yet we call ourselves enlightened, Christian members of modern civilization. Surely the marvellous dignity we attach to our political sagacity is more than surprising. When we look at what we are doing, instead of being proud of being public men, we ought to wonder why the public allow us to live at all. My submission as a politician is that—and I am here as a politician—if we don't waken up to our position and kick these bankers out of control of the money, they are going to kick us out of parliament. The right of self government will give way to straight dictatorship. Don't make any mistake about that, Mr. Chairman. They have done that very thing in Germany and Italy, and they are proposing to do it all over the continent. This war is not between humanity and usury, but it is a war between the right of self government and money dictatorship. That is the issue; and here members of parliament are called upon to pass an Act that makes the banker the ruler of parliament.

The CHAIRMAN: Terrible.

The WITNESS: Well, it is not only terrible, but it is asinine and stupid. Bonaparte had a good idea of that, and he knew something about dictatorship. May I commend to the members of this committee a book which my good friend, Hon. Mr. Mackenzie, of Vancouver, was kind enough to give me since

I came here, "Monarchy or Money Power," which is a splendid treatise on the European development. The author is Mr. R. McNair Wilson, and the publisher is Eyre and Spottiswoode, London, England. This books says:

> Having made peace with the whole world, Bonaparte set about his task of preparing himself and the French people for the return to the Gold-system. It was ordained by him that money should not be exported from France on any pretext whatever except with the consent of the government—

He knew what he was doing.

> —and that in no circumstances should loans be employed to meet current expenditure whether civil or military.
>
> The object was to withhold from finance the power to embarrass the government, as it had embarrassed the government of Louis XVI. When a government, Bonaparte declared, is dependent for money upon bankers, they and not the leaders of that government control the situation, since "The hand that gives is above the hand that takes."

While even a child should be able to see the danger, we now propose to set up a bank that puts all the money and credit of nation and people under the control of bankers. They will then become the actual controllers and rulers of the government. Instead of having self government under a democracy, you have a sham of self government and democracy. You have an oligarchical plutocracy of money power in control of government and people and that is the kind of thing the Bank of Canada Act is designed to create. Why the politicians themselves should fall for it is something I cannot understand. We are placing usury in its most dangerous form in charge of the nation.

Now, people say to me that a man who talks about usury in the old biblical sense is not living up to modern times, that men are cranks who denounce usury as unsound. But the London Chamber of Commerce in January of this year comes out with this statement as a headline, "Good Will or Usury?" It says:

> Humanity can have good will and peace, but it cannot have usury and peace.

It then goes on to show that under our system the banker is allowed to create a substitute for money out of nothing, lends it as though he were lending money, and exacts not only interest but a repayment of bookkeeping entry loans, as interest, in money; and both principal and interest are repayable in money. "The point is this, that the community always owes, in money to the bank, more money than the bank, in fact, issued; because the bank never issues the interest which the community is under obligation to pay." As a result of banker management we in Canada have climbed up into the position of owing $9,500,000,000 at interest. Ask yourselves how those debts have been pyramided up, and ask yourselves again how in the world you are going to pay them. You never can, as the London Chamber of Commerce points out, because the banker lends you the principal and he puts that in circulation, but he does not put the interest in circulation. Let us keep that thought in mind. Here is how it works out. You borrow $100,000 to build a road or a bridge or a school, and what happens? Let us assume that you are borrowing that $100,000 at 5 per cent for twenty years. Yes, you put $100,000 in circulation, and you use that medium of exchange to co-relate labour and material. You build $100,000 worth of real wealth, and your books balance. You have got $100,000 of real wealth and $100,000 put in circulation, but you don't leave it there. You add 5 per cent on the cost which nobody puts in circulation, and you ask the taxpayer to repay in twenty years another $100,000 in addition to that which was put in circulation. Where is it going to come from? Why, it

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invariably comes from another loan. If it does not come from another loan, one thing must result. At the end of twenty years you have got a school, but you have paid back your $100,000 which it cost, and you have paid back another $100,000, in the medium of exchange, which is necessary to maintain the school; your people are $100,000 poorer than they were before the school was built, because the credit dealer has increased his $100,000 by another $100,000 of the people's credit or money wealth. This should prove to anyone the fallacy of trying to build a civilization on a foundation of usury. So long as the banker manages public credit you will never escape from the strangling grip of the dead hand of unpayable debt claims. You do not need to be an economist or a student of economy to see that if you put a bucket of water on a table before you and take a dipper, and pour one dipperful in and two dipperfuls out, it is not going to be very long before you are going to empty the bucket. Under this system that we have been functioning under, or trying to function under, of lending credit repayable in money with interest, we must dry up the consumers' purchasing power; we are bound to destroy the ability of the consumer to buy and the taxpayer to pay. Pyramiding and increasing debt claims that are issued not by the government but by a private monopoly created by the government make the situation worse instead of better.

Now on April 4th, 1934, this campaign of over two years of the London Chamber of Commerce, crystallized into a definite action. May I quote a letter which appeared in *The Times* of London under the signatures of some of the most prominent members of the Empire's Trading Chamber of Commerce.

> The modern paradox of poverty in the midst of plenty was the subject of a challenging passage in the speech of His Majesty the King at the opening of the World Economic Conference last year, His Majesty said:
>
>> It cannot be beyond the power of man so to use the vast resources of the world as to ensure the material progress of civilization. No diminution in these resources has taken place. On the contrary, discovery, invention and organization have multiplied their possibilities to such an extent that abundance of production has itself created new problems.

Where is the credit that this abundance of wealth is supposed to create? Why are we not going forward? This is a new lead for a King to take, to ask his members of parliament and public men to find a solution of that problem.

> Under modern scientific conditions the capacity of industry to produce is unlimited, and the continued existence of destitution, poverty and unemployment, throughout a large portion of the population, demonstrates the fact that the present monetary system, the proper function of which is to facilitate the production of goods and their distribution to consumers as required, has broken down, both in its national and international aspects. The system is obsolete, and has become a hindrance to the effective distribution of goods.

That is not my condemnation of banking and Bill 19. That is a condemnation of a group of men who have lived in a country that has been operating under the Bank Act of England since 1844.

> A hindrance to the effective distribution of goods, nationally and internationally. The object of production is consumption, and with approximately 90,000,000 people destitute, or on the verge of destitution, in the advanced nations which keep statistics, it cannot be suggested that the desire to consume is not present. Both these primary functions of the economic body—production and consumption—are frustrated, and what should be a healthy and vigorous organism is paralyzed in peace time by the failure of the monetary system of distribution.

> The monetary system is man-made and can be altered: There is nothing sacrosanct about it.
>
> We, the undersigned, in common with a large and rapidly growing body of citizens, who are genuinely concerned at existing conditions, have come to the conclusion that gold is not essential as the basis for the issue of national money, and that nations should not be under obligation to make payments internationally with gold. A system must, in our view, be established under which the issue and recall of currency and credit will be regulated on a rational, national, and scientific basis, so that the correct number of money tokens shall be available to consumers to enable them to enjoy the output of production.
>
> There is, in our opinion, no need to wait for international agreement, since if Great Britain gives the lead, other countries, will, we believe, find it in their own interests to follow.

That open opinion of leaders of British industry and commerce should not be left unconsidered.

I want to draw the attention of the committee, if I may, to the fact that there has been a good deal of nonsense talked about inflation, and I propose to deal with that for a few minutes a little later on, but I would like to draw to the attention of the committee a statement of Reginald McKenna, which I think should go on the record. McKenna is a man who is a banker, who enjoyed the privilege of seeing the British money system functioning during the war as Chancellor of the Exchequer. Anybody who would dare to suggest that Reginald McKenna makes public statements dealing with a matter of such vital importance to Great Britain and to the British Empire, as its money system, for the purpose of getting business for the Midland Bank, or any other purpose than that of a sincere expression of his own ideas, fails to appreciate the standard that British public men and leaders have established.

McKenna urged international price lifting by means of managing currency. He says:

> Controlled inflation, instead of being the remedy of fools and knaves, has become widely regarded as the best available solution to our troubles, particularly since it has become realized that a substantial rise in wholesale prices need have no more than slight effect on the cost of living. It is, I believe, possible to achieve a rise in the internal price level by monetary management, and I am unshaken in this opinion by the frequent charge that reflation already has been tried and found wanting by Great Britain and the United States. Deliberate monetary management specifically designed to raise the price level has not been tested in either country.

Now, a little later on he referred to the same thing, in which he pointed out this conflict—that is the real issue—the conflict between the banker who wants a shortage of money and the monopoly of the right to issue bank credit as his stock in trade. Just as a good many farmers and others are now seeking to get a monopoly of production, the banker is moving to establish a monopoly of world credit. The public want an abundance of money, for the purpose of increasing the distribution of wealth. The banker wants a shortage of money so that he can loan credit at interest. McKenna points out that to secure an adequate volume of consumers buying power, you must break with the gold standard and resort to more flexible management of the monetary system and in May, 1933, he repeats that same lesson and advocates:—

> Deliberate creation of conditions which will ensure a moderate rise in commodity prices in terms of sterling induced by the calculated and controlled expansion and cheapening of the supply of money here.

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> Wise leadership in monetary affairs by this country might bring the whole world back to relative prosperity. The opportunity presented to this country in these dark days is the measure of its responsibility. The world will judge us in time to come by the fruits of our monetary policy.

The fact is stressed that wholesale prices have fallen far more precipitously than retail, so there is room for a substantial rise in wholesale prices, and it will not affect the cost of living very much; and he then goes on to declare that there must be a definite system of money management.

Now, in my studies—as I say, I confined them very largely to economy that is practical—I found one or two things that I thought were extremely interesting and extremely informative. For instance, in 1790, the conflict between Jefferson and Hamilton on the problem of laying down a sound monetary system for the United States raised the question of banking. Hamilton was a sound money man, a banker's man, and unfortunately for the United States, his ideas prevailed rather than those of Jefferson. Hamilton effectively summarized the bankers' policy of to-day in a declaration which was made in his report to the United States government in 1790, recommending the establishment of a privately owned bank known as the Bank of United States, a similar proposal to the one that you have now before you 120 years later.

In that report, he pointed out that there were two ways by which governments could finance. This paragraph of the report has long been recognized by sound money men as a classic of economic literature, and it reads as follows:—

> The emitting of paper money by the authority of government is wisely prohibited to the individual states by the national institution; and the spirit of that prohibition ought not to be disregarded by the government of the United States.
>
> The wisdom of the government will be shown in never trusting itself with the use of so seducing and dangerous an expedient. . . . The stamping of paper is an operation so much easier than the laying of taxes, that a government in the practice of paper emissions would rarely fail in any such emergency to indulge itself too far in the employment of that resource to avoid as much as possible one less suspicious to present popularity. If it should not even be carried so far as to be rendered an absolute bubble, it would at least be likely to be extended to a degree which would occasion an inflated and artificial state of things incompatible with the regular and prosperous course of the political economy.

Now, in this expression of sound money philosophy, Hamilton considers two proposals. First, he considers that governments might finance by the exercise of its sovereign power, to create, issue and regulate the circulation of national currency and non interest bearing public credit, or in a word, the maintenance of a national banking system that will monetize public credit as a public utility. Now, he wipes that aside, and says it was not safe, and that the normal course of political economy would be better served by another course. He then declares for the issue of government interest bearing bonds repayable with interest in money as the sound way to finance. Government must borrow from the banker and pay interest for its own credit.

At that particular time, the international bankers of Europe were moving to establish a system whereby international exchanges of bookkeeping entries could take the place of international shipments of gold. They saw the time coming when money would recede into the background of the monetary system and that credits would take the place of money as the means of financing

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loans. They were moving to fasten onto humanity, a private monopoly of the issue of credit as a substitute for money. About the same time there was a man by the name of DeLisle Brock, living in Guernsey Island. There is a book describing his activities in the library here, entitled, "An Example of Communal Currency" by J. Theodore Harris, publishers, P. S. King and Son, Orchard House, Westminster, London. It is a very small book, and you can read it in a very short time. It tells the whole story of a government that decided to issue its own money to finance public work and social service without borrowing from bankers, and the success of the operation between 1818 and 1837. It offers to you a practical solution for your economic problems in Canada to-day. Brock was a thinker, and this is what he defines as the true basis of such an undertaking:—

> If there is one incontestable principle it is that all matters relating to the current coin of any country have their source in the supreme prerogative, and that no one has the right to arrogate to himself the power of circulating a private coinage on which he imprints for his own profit an arbitrary value. If this is true for metal coins, still more so is it for paper money which in itself has no value whatever.

And even more true is it when banks issue bookkeeping entries as a substitute for both paper currency and money of intrinsic value.

Can you conceive of anything more ridiculous than this: a government that would give to a bank the power to print money and then turn around and exchange the government's interest bearing bonds for that printing press money and to use printing press money of the bank for the purpose of meeting governmental expenses, with the result taxpayers' wealth is actually confiscated to pay the interest on such a loan? Can you conceive of anything more ridiculous than that? And yet in Canada that is exactly what you do. The system that you are proposing to perpetuate under your banking act—the banker is given power to print paper money up to the value of his paid-up capital. Now let us see how that works out. Let us say a bank was incorporated for one million dollars, capital and that capital is paid up. The bank then has one million dollars of working capital in the bank. Under our banking act, the bank can then print another million dollars without any further security whatever. There is no gold and not a penny of security behind that printing press money other than the paid-up capital of a million dollars. The bank then has $2,000,000 of working capital. That banker can take the printing press money and buy with it a national government bond bearing interest. But more than that, he can do this: I walk in to a banker and say to him, I want to sell a $100 bond, and I hand him my bond. He gives me $100 of his printing press money, but I do not carry money with me in Vancouver—I do not know whether you do down here or not—I stick it right back into the bank and then somebody else walks in and wants another bond converted into money. The banker says, sure. And he uses the $100 I have left there on deposit to buy the second bond; and I walk out, and my friend walks out. The banker then has $200 worth of interest bearing bonds and all the money he ever started with and so the racket goes on. We should not marvel that bankers are rich. That is what we call sound money. Sound for whom? It is a credit racket, not a sound money system. Now, people say, why, it cannot be as soft as that. No? Well, unfortunately it is just that easy. And if you want to know how we have pyramided $9,500,000,000 of debts with $200,000,000 in money, you will find that what I have been describing to you, is described by the banker with a specific special term he calls it the "velocity of circulation." With this "velocity of circulation" he has put a stranglehold on humanity and you are writhing under the grip of the dead hand of usury and a system that is thoroughly unsound for everybody but the exploiter of humanity, the usurer. By the Bank of Canada Act you propose to perpetuate that system.

Lincoln knew this racket. He learned all about it because he fought the Civil War with printing press money—the despised and hated " greenback currency." All the bankers in his day got together and they ganged up on Lincoln, and if you want to know the history of Lincoln's fight with the bankers' you may read Warshaw's "Wall Street." There you will see how in 1862 when Lincoln started to use "greenback currency," the bankers set up in Wall Street a gold exchange and they did play gold against the non gold American dollar, the greenback; they boosted the price of gold in terms of greenbacks up to $57 an ounce. Roosevelt is not setting any precedent in fixing the price of gold at $35 an ounce. The bankers back in 1864 got it up to $57 an ounce. Lincoln's proposition to finance the war by the use of "national currency" had been adopted in every national crisis, up to that time and was again adopted in the great world war crisis that came in 1914. We abandoned gold then; why? Why did we abandon gold in 1914? Because we knew that we could not keep the purchasing power medium of exchange in circulation that was necessary to pay men and war contractors to finance the war, if we stayed on the gold standard. The volume of money that we required was greater than the volume that the gold standard would permit; so to save ourselves in war time, just as the United States had to do, in the Civil War period, just as England and Germany had to do in the Napoleonic wars--and in every major crisis—we resorted to the use of national credit, we abandoned gold but instead of using national currency we borrowed bank credit. In Lincoln's time, just as they are doing to-day, the usurers, known as the wolves of society in the New Testament, as the beast of the city in the days of ancient Rome, and as the money changers in Christ's time proceeded to plunder the nation by manipulating gold against the national currency.

Lincoln added to the wisdom of the world by declaring:

> It is peculiarly the duty of the national government to save the treasury from the payment of interest by securing to the people a uniform national currency and a sound circulating medium by furnishing a currency as safe as their own government.

Now, as Lincoln proceeded with his policy, the bankers published certain circulars at that time designated to assure opposition to Lincoln's ideas; and while they were issued in 1862, these circulars define the policy set out in the Bank Act which is described as Bill 19 and now before this committee.

The National Bankers' circular was issued by James Buell, the representative of the Bankers' Association in the United States, and a copy was sent to each banker in the States and it read as follows:—

> DEAR SIR;—It is advisable to do all in your power to sustain such daily and weekly newspapers, especially the agricultural and religious press, as will oppose the issuing of greenback paper money, and that you also withhold patronage or favours from all who will not oppose the government issue of money. Let the government issue the coin, and the banks issue the paper money of the country; for then we can better protect each other. To repeal the law creating national banks, or to restore to circulation the government issue of money, will be to provide the people with money and will therefore, seriously affect your individual profit as bankers and lenders. See your Member of Congress at once, and engage him to support our interest that we may control legislation.

Mr. IRVINE: What is that number?

The WITNESS: The National Bankers' Circular. This is part of the Congressional Record of a later date. It is published in several books, one, " The Management of Credit," by T. Cushing Daniel, is a well-known document.

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Then come the well known Hazard circular, which was issued in the same year, as a part of this same fight that is going on right here right now. Hazard was a solicitor for an English bankers' association, and was financially associated with the Rothschilds and his circular reads in part as follows:

> Slavery is likely to be abolished by the war power and chattel slavery destroyed. This, I and my European friends are in favour of, for slavery is but the owning of labour, and carries with it the care of the labourer; while the European plan, led on by England, *is Capital's Control of Labour, by controlling wages. This can be done by controlling the money.* The great debt that capitalists will see to it is made out of the war, must be used as a measure to control the volume of money. To accomplish this the bonds must be used as a banking basis. We are now waiting to get the Secretary of the Treasury to make this recommendation to Congress.

Now in considering these pamphlets ask yourselves:

Are bonds the basis of your banking business in Canada? Of course they are. You do not finance on gold through your banks, you finance on the great debt claims of capitalists issued by your national government, as the cost of war, and on your provincial, municipal government interest bearing bonds. The Hazard circular sets forth the present policy of the orthodox school of finance—of which the Bank of Canada Act is an open expression—it defines the policy by which one group in the community are permitted to take the privilege of using the nation's credit to exploit and plunder the entire wealth of the nation. Yes, we laugh about the foolishness of Rome going to disaster by creating a system of farming out the taxes, but we are bringing ourselves to disaster by allowing a comparatively few members of the community to monopolize the wealth of the entire nation by being privileged to manipulate and use the nations credit as the stock in trade of the business of mass usury.

Lincoln was elected in 1864 on a national currency platform. In studying Lincoln's life I made a close examination of the verbatim testimony that was given at the trial of his assassinators. I found a secret service agent declaring in his evidence: during the winter of 1864 and 1865 he was in touch with the plot to assassinate Lincoln, which originated in Toronto and was partly completed in Montreal. In giving his evidence, he said that the men who approached the southern representatives, who were operating in Toronto, with the proposal to assassinate Lincoln were described to him " as a group of men who could undertake anything they care to execute with regard to the cost;" they were not from the south because the representatives of the south had to get in touch with the south before they would consider the proposal. When the proposition was put up to the south it was not put up as a proposition to assassinate but as a proposal to kidnap. At that time there was only one group of men of great wealth in the world who were interested in the removal of Lincoln—they were the international bankers of the world; the men who were opposed to Lincoln's national currency ideas. My friends may laugh, but worse crimes than that have been committed in the name of usury. Christ was not crucified until He drove the money changers from the Temple.

In 1873 there was another crime committed in the United States which was in line with the policy outlined in the Hazard circular. It is publicly recorded that $500,000 was corruptly used for the purpose of inducing Congress to demonetize silver and establish the gold standard in the United States. A congressional commission was appointed in 1876, and the commission of congressmen and senators in their report, pointing out, "that the race for gold would end in chaos with the most successful nation suffering to the greatest extent." This prophecy was vindicated in 1932 with the economic collapse in

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the United States, when the nation that had more gold than any other nation possessed suffered greater depression and disaster to business than any other nation suffered.

Can we, with safety, in the face of such a vindication of past wisdom repudiate knowledge that is so positively recorded? You can follow the record of usurers step by step. In 1816 they established the gold standard in England. In 1833 they made the Bank of England note legal tender. In 1844 the Bank of England was established. In 1855 the right of one of the Rothchilds, the first foreign money lender, to sit in the House of Commons, was questioned on the ground of a sixteen million pound loan to the British government. In 1854 all the laws against usury in England were abolished. In 1864 Lincoln was elected on a national currency platform. In 1865 came the disaster when Lincoln was assassinated. In 1873 the gold standard was established in the United States, and in 1894 Arthur Kitson warned humanity—and he is still alive to see his prediction come true. In his book " A Scientific Solution for the Money Questions," he said:—

> Gold creates debts and then prevents men from settling them. It places mankind in perpetual bondage. It is a prison gate that only opens inwards. Its victims are permitted to enter but never to escape.
>
> Not only are the factors of well-being and of progress rendered impotent by the gold standard but the factors of evil minister to its exploiters. Wars, State extravagance and political corruption all serve to build up this pyramid of irremedial debts which almost every nation is now adding to and upon which the gold octopus feeds.
>
> Repudiation is inevitable. Let us clearly see this. It is not a threat. It is an inevitable result. It cannot be avoided. Nations must strangle this monster or it will strangle them. The gold debts of the world can never be redeemed.
>
> In vain men toil, in vain they produce, so long as this tapeworm of society exists. All our surplus wealth which should go to form a national store, all our surplus creations we must sacrifice. In vain science prosecutes her voyage of discovery and art labours to convert the discordant and hostile elements of nature into a system of usefulness and harmony. In vain temples of learning are reared and libraries founded. All these institutions, all these achievements that have for their object the advancement of learning and the raising of labour to a higher state of efficiency serve but to strengthen this octopus and give it a firmer grasp and a stranglehold on society. The gold standard means inevitable war. Nations cannot possibly exist under it.
>
> " The children born of it are fire and sword,
> Red ruin and the breaking up of laws."
>
> This question, this money question, is the supreme question of the hour. It is not a mere abstract question of economics. It does not merely concern statesmen and students of finance. It is the greatest moral, the greatest social question which mankind has ever had to consider. It concerns the lives, fortunes and happiness of every human being in society and all the generations yet unborn. It is the problem at the turn of the century, and our answer to it will determine the character of the drama we shall have to witness and upon which the curtain of the twentieth century is about to rise.

That curtain has been raised. The World War came. Eight million of men were killed and forty-five million others were mangled. The post-war period of prosperity is over, and riding under a debt of four hundred and

fifty thousand million dollars of interest the twentieth century of civilization is slowly but surely bogging down into the tragedy of disagreement and disaster, revolution and war. When a man can write in 1894 a description of events that perfectly describe what historians are compelled to record in 1934, men considering banking legislation for the future have a right to recognize not only his wisdom but what is more valuable, that wisdom that gives expression to prescience.

In 1911, Woodrow Wilson said:

> The great monopoly of this country is the money monopoly. So long as that exists, our old variety and freedom and individual energy of development are out of the question. The growth of the nation and all our activities are in the hands of a few men, who, by reason of their own limitations, chill, check and destroy genuine economic freedom.

The Pujo money committee, appointed in 1912, to investigate the financial systems of the world, declared for one thing against the monopoly of money, the very thing that you are creating in this Bank Act.

Louis D. Brandeis, an associate justice of the Supreme Court of the United States, a man whose rise to the bench was fought by bankers and by the interests of the United States as no other man was ever fought but who was elevated to that high position, despite that vicious opposition—yes, there were reasons for fighting Louis Brandeis; yes, there were reasons for crucifying another Jew two thousand years ago and they were almost identical—in 1912 Brandeis declared this in his book, "Other Peoples Money." And that is a book published in 1912 that can be read with tremendous advantage to-day:

> We must break the money trust or the money trust will break us. . . . This failure of banker-management is not surprising. The surprise is that men should have supposed it would have succeeded. For banker-management contravenes the fundamental laws of human limitations: First, that no man can serve two masters; second, that a man cannot at the same time do many things well.

All I think will agree with this conclusion.

Sir Charles Gordon of the Bank of Montreal might be a good man in the textile business, and given the proper kind of training he might be a good banker, but it is a safe bet that he cannot be a good banker and a good textile man at one and the same time. Herbert Holt may be a cracker jack as a railroad contractor—and I am not—

The CHAIRMAN: Mr. McGeer, do you not think you had better leave personalities out of this thing? It is the system you are attacking not the men.

The WITNESS Oh well, I am not so sure about that.

The CHAIRMAN: I think you had better not say that.

The WITNESS: Very well, I bow to your ruling on that. But what I am pointing out is this, that to get to the proposition of having one man do many things well you go a little further than that. It is a very dangerous thing to allow your banker to mix in any private form of business. If you are going to operate a system where bankers can mix money making in business with the administration of public credit you are very apt to get up against what you were up against in railroad administration. There you allowed directors of railways to give rebates and special privileges to corporations in which they were interested, to communities in which they were interested, and were eventually compelled to recognize that, to stop those abuses, you had to establish the Interstate Commerce Commission of the United States and the Board of Railway Commissioners in the Dominion of Canada.

Can you conceive of any more flagrant violation of this postulate of common law—and it is one that is well known to every student of law—"that

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where the same man sits on both ends of a bargain there can be no trade," that must occur when the banker advises and finances governments at the same time. We do not allow trustees to manage the property of the cesqui trust and to take a personal rakeoff on that. We set up definite limitations and definite restrictions, and we fix the amount of compensation in every case. Yet we create a banker, by this Bill, as advisor to the government on financial matters, and we transfer the taxpayers wealth to the banker because he advises us not to issue our own money but to borrow book-keeping entries as a substitute for money issued by the bankers for the purpose of financing government loans. Can you get a better illustration of this deliberate invitation to violate that postulate of common law than what is now proposed in the formation of the Bank of Canada.

In our whole social system there is only one class of men allowed to manage and profit at the same time out of the substance of their trust. That privilege is being perpetuated by the legislation you are considering.

In the United States they have indeed every reason to be concerned, as we have as to the results that have followed: Their position is, however, almost typical with our own. They have, under this system of pyramiding debts:

Money in issue..	$ 4,500,000,000
Bank deposits..	53,000,000,000
Interest bearing debts..	238,000,000,000

The people of Great Britain are in a similar position, with $80,000,000,000 of interest bearing debts, while we in Canada with a population of ten million people carry a burden of interest bearing debts totalling $9,500,000,000. Why? Because we have allowed the banker, who was interested in increasing interest debt claims, to advise us how to manage our monetary system. The disaster that has come, that was predicted by senators and congressmen in 1876, that was predicted for the world in 1894 by Arthur Kitson, is now more than a matter of abstraction. It is the fact. We are witnessing the breaking up of laws.

The Department of Justice in the United States pointed out that last year there were twelve thousand murders, three thousand kidnappings, fifty thousand robberies, five thousand cases or arson, one hundred thousand assaults and forty thousand burglaries; and we in Canada, had better look to our own administration of justice, because our crime situation is far from being a happy one to-day. If we are going to plunge humanity on through a continued period of Banker Rule we had better recognize that, as a complement to our universities, we should build penitentiaries and lunatic asylums.

President Hoover, who is probably not looked upon as a radical reformer, recognized the necessity of doing what I am advising you gentlemen to do here. This is what he said in 1932:

> I stated that this depression has exposed many weaknesses in our economic system. It has shown much wrong doing. There has been exploitation and abuse of financial power. These weaknesses must be corrected and that wrong doing must be punished.
>
> The American people must have protection from insecure banking through a stronger system.

Much has been idly said about the strength of the Canadian banking system as compared with the strength of the American banking system, but a little thought will teach you that what the American banking system is going through now the banking system of England went through after 1844 and what we in Canada went through in years past. To operate this banking system of trading short on money, the operation contemplated by the Bank of England, you have got to reduce the number of banks to where they can act as one unit. Check off the number of banks there were in 1844 in England, and from some-

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thing over 400 odd banks doing business the figure has been reduced to about 40, with the big five doing the bulk of the banking business in England. In Canada your banks have been reduced from between 50 and 60, I believe, to nine. Now, 9 banks are functioning in Canada with the big three doing the bulk of the business. Well, you could not have ten thousand bank failures in the Great Britain and the Dominion of Canada, or the British Empire because there are not that many banks; but give to the United States about three more depressions and they will have their banks reduced down to the number that can operate successfully from the bankers point of view, and then the public will have confidence in them and not be so foolish as to ask the banks for money which the banks do not carry. If all our depositors had gone to the Canadian banks and did what depositors did in the United States—ask the banks to give their money up—we would have bankrupt all the banks in Canada. It was not that the banks were sounder, but it was because the Canadian people knew that if they called upon the banks for their money the government would step in and issue the money if it was necessary, because we know that, under our Finance Act, in a time of crisis a bank can go to the government and ask the government to monetize the bank's securities by turning over legal tender cash. But when we examine the banking situation in Canada from the point of view of the solvency of the nation, we find a different story. The bankers of the United States did not allow their people and their governments to go borrowing credits abroad. They lent credits abroad. We are bankrupt internally and internationally as well, and when it comes to the proportion of unemployment, to the proportion of loss of bank deposits, to the proportion of loss of homes, farms and loss of business, and so forth, our banking system in Canada has not served us one whit better than has the banking system of the United States served the people of that nation. Our government has had to come to the rescue of our banks and everyone else in international exchange. It has had to help out every province and every municipality. And even the powerful C.P.R., an exceptionally well managed and carefully developed company, possessed of enormous resources, did not have any credit with our banking system without a guarantee from the government. The banking system here is taking a lot more credit than it is entitled to take because of the exceptional patience and co-operative spirit of the Canadian people.

Then Mr. Hoover says:—

> I recommend to the congress the same reform of our banking laws.

Senator Bronson Cutting, of New Mexico, comes forward in March of this year with a public statement to this effect:—

> Private banking is doomed in this country by the New Deal. Control of credit is a government power that does not belong in private hands. Unless the administration presents a bill depriving bankers of this power, I myself shall introduce such a measure. Private control of credit must be abolished.

Senator Cutting was a supporter of President Hoover in 1928, and in 1932 he supported Roosevelt. The article containing this statement appeared in *Liberty* under date of March 31, 1934. It is a splendid expression of an enlightened public man's attitude to the modern monetary system. In a hundred other places men are coming to recognize what, I think, is the basic problem, namely, the financing of consumption, as presented to the American Academy of Science by Carl Snyder, in 1929. Snyder, as statistician of the Federal Reserve Bank of New York, is a man who speaks with an unquestioned authority on the subject. At that time he pointed out:—

> In other words, it seems clear that the production of foodstuffs in the last three years has not been excessive or at an extremely high rate. And for the rest, the idea of the "overproduction" of foodstuffs, when

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> far more than a billion people, far more than half the whole population of the earth, live practically at the starvation limit and do not get two decent meals a day, is a misnomer, to say the least.

That was before this great tragedy of ninety million people in the British Empire and the United States and European countries, being in destitution. Then he says:—

> If the whole world had the standard of living of Germany and England, not to mention the United States, the world's food production could increase at double its present rate, that is, the rate of the last five years, for many years to come, without satisfying the demand. Some day this fact possibly will dawn upon economists and bankers.

Well, that this proposition has not dawned on anybody in this country yet is proven by laws that propose to give our wealth over to the Bank of Canada.

The CHAIRMAN: Mr. McGeer, will you allow me to interrupt you a moment. We have had a precis made of your evidence given before the Macmillan Commission, and what you have given us here this morning is almost exactly a repetition of that evidence. If you have anything new to offer the committee we will be glad to hear it. The evidence taken on the Macmillan Commission is a matter of record and it is available to every member of this committee and to the public. I would, therefore, suggest to you, that if you have anything new to offer you might confine yourself to that.

The WITNESS: Yes. Having dealt with that, Mr. Chairman, I will confine myself to what I consider is new, and I want to deal with how the Macmillan Committee report brings to our attention the operation of this system as they found it on their investigation in 1933.

At page 38, we find that our gold reserves were \$69,000,000; our Dominion notes in issue were \$132,000,000; circulating media in the hands of the general public, \$204,000,000; bank deposits or money debts of bankers to depositors \$2,400,000,000.

At page 83 of the report:—

> War time expenditures, post war prosperity and depression have affected Canadian bank deposits as follows:—

1914—total deposits	1,100,000,000
1920	2,000,000,000
1929	2,400,000,000
1932	1,900,000,000

By Mr. Geary:

Q. From what are you reading now?—A. Page 38 of the Macmillan committee Canadian report, and page 83.

Q. Tell us when you come to page 83?—A. Page 83 gives the total deposits for 1914, 1920, 1929, and 1932.

Q. In Sir Thomas White's addendum?—A. Yes. The fact is, that while the report does not contain the figures, Canadian monetary transactions consummated by cheque totalled, in 1929, \$46,000,000,000; in 1932 they totalled only \$24,000,000,000, a fall of \$22,000,000,000.

What I want to bring to your attention is this, that a country that can have \$2,400,000,000 of bank deposits with only \$204,000,000 of money in the country must be creating bank deposits out of something other than money. A country that can finance a war that cost something in the vicinity of two thousand million dollars by raising its bank deposits from 1914 to 1920 from \$1,100,000,000 to \$2,400,000,000, must be financing war with something else than money.

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Here is how banker management of the gold standard private money system has worked out in the Dominion of Canada:—

Gold, less than.. .. ..$	100,000,000
Money..	200,000,000
Bank deposits..	2,000,000,000
Public and private interest bearing debts.. ..	9,500,000,000

Since 1914, the national government has paid out on account of interest $2,000,000,000, and we owe $2,300,000,000 more in 1934 than we did in 1914. Our annual interest charge for the year ending March 31st, 1934, is $130,000,000, an increase of something like $15,000,000 over the previous year; and we are faced with an increase in debt of $132,000,000, and a visible deficit of $135,000,000.

As I came over the Canadian National Railway, having some knowledge of these things, I could not help but reflect that our greatest deficit is in our breakdown, in our failure to keep up the things that should be maintained on a much higher standard than we are maintaining them to-day and have been maintaining them in the past.

Here are some facts, and you will get them in your Year Book:—

Wealth production in Alberta and British Columbia during the five years preceding 1929, reached a net production of wealth of $3,011,000,000. After producing $3,000,000,000 of wealth out of our lands and forests, and mines and fisheries, and our power activities—our natural resources—we wind up on the eve of the most beautiful disaster that ever happened, broke and bankrupt.

By Mr. Spencer:

Q. What year was that?—A. The five years preceding 1929. The figures are:—

WEALTH PRODUCTION

	In (000,000) dollars	
	Alberta	British Columbia
1925..	261·5	261·5
1926..	298·0	289·8
1927..	378·5	291·1
1928..	341·4	321·3
1929..	237·4	331·4

Those are, in millions of dollars, the figures of production. The same thing goes for the Dominion of Canada. Our production of wealth out west was fairly large per capita because of the nature of our activities. In the province of Ontario and Quebec it is equally large. You can say that, during the last ten years, Canadians have produced about $10,000,000,000 worth of wealth, even allowing for the depression in prices; yet, despite that, we are bankrupt. We are broke. We can't build a school. We can't pay a decent pension. We are asking men to work for 20 cents a day out in British Columbia. We are closing our library in Vancouver. We are threatened with the closing of our schools. Our provincial government is in a pitiable state of bankruptcy. They are here to-day asking for $8,000,000, with which to carry on, and if they don't get it, they say quite frankly, "We can't carry on, we will have to repudiate." If you do give them the $8,000,000, how long is it going to carry them on? They are going to be back again. There is no remedy to be found in that kind of thing. But there is plenty of evidence indicating the necessity of finding a definite remedy. Now, I want to say this, that in working out a practical remedy I conceived a proposition which I am pleased to call a four point plan. In answering the definite request for information that the King of England made to the

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Economic Conference, in answering the definite request that humanity is making for some better means of financing progress and prosperity, in answering the dictates of plain reason and common sense, I think we should recognize that we have done three things during the last one hundred years. We have emancipated mankind from illiteracy and some measure of ignorance. Oh, we are only on the frontier of being emancipated from ignorance, and we have a long way to go yet in that. One of our biggest problems is to find a means of financing education that will eliminate many of the social and economic inequalities that the human race is suffering from to-day. Yes, we have developed education next. Science has conquered many of the enemies of man. Pestilential disease and starvation are conquered. Science has given us facilities to conquer poverty if we want to, and next we have done something more than that. We have emancipated mankind from the shortage of buying power that the digging of gold and silver out of the ground imposed, because we have substituted a credit system for a money system, and perfected the technique of substituting bookkeeping entries for gold as the basis of our money system. If we recognize these three achievements; that we must manage money, we have got to come to this conclusion. In Canada to-day 10,000,000 people enjoy—through science's developments of energy—the use of steam power, electric power, and the internal combustion engine. We have the productive energy not of a population of 10,000,000 in the age of hand labour, but of a population of 320,000,000 in the age of hand labour. Yet we are trying to get along with a monetary system that was developed to serve a hand-labour age. Only 2 per cent of modern productive energy is human. We have eliminated the drudgery from human toil. We have made it possible for men to produce with ease and abundance, and to enjoy that abundance in leisure, and we don't know how to handle it. Our bankers refuse to let us enjoy plenty. We have depended upon what President Roosevelt was pleased to describe as "a generation of self seekers, a generation of men who have failed because they knew only the wisdom of self seekers." He points out that now "the money changers have abdicated from the temple of our civilization, we can now restore it to the ancient truths."

Gentlemen, I am not going to offer anything new in the remedy I propose, because I don't think we will find the remedy for the economic ills of this age in any new invention. We will find it in applying those statutes and judgments that have stood the test of time. If we apply the ancient truths to to-day, we will find a means of using and increasing the abundance that is available for enlightened humanity. Yes, our government must assume great responsibility. I cannot delegate its primary duty of looking after the people to someone who wants to exploit them. When men declare that they are advancing the science of government by creating greater power in the hands of money dealers and protecting them, on the assumption that they will protect the economic security of industry, commerce and labour, they are failing to recognize that government is created to protect and guard humanity against human weaknesses. Men mock the people when they declare that they can delegate any part of the government's responsibility to protect every class of society, from the highest to the lowest, to any intermediary; because invariably when intermediaries come in between government and people, you find a loss of liberty, a destruction of freedom, and a disastrous invasion of the principles of self government. If there is going to be an intermediary power, it must be an expression of an arm of the government, and in its administrative authority it must be directly responsible to the opinion of the people. But in the creation of this monopoly under the Bank Act you are creating a credit monopoly that has the administration of the affairs of the whole community and it is answerable to neither government nor people. I submit to you that to say that it is going to be publicly owned because 5,000,000 shares are going to be sold to the public for $5,000,000, that the public will have, as a result, anything to say about that

management, is pure nonsense. Upon what theory will you delegate to 5,000,000 shareholders the right to manage the wealth of 10,000,000 people, even if you gave those shares out at a dollar apiece? It would be an outrageous thing. But you have reduced that number very greatly, so that the total number of the people that might enjoy participation in this bank will be 10,000. Upon what principle will you say that you are going to create a monopoly and hand it over to 10,000 citizens, the right to manage the credit wealth of 10,000,000, or 20,000,000 as it may be in the future? Do you say the shareholders will have anything to say about the management? Do the shareholders of the C.P.R. have anything to say about the management of the C.P.R.? Do the shareholders of any of the banks have anything to say about the management of any of the banks to-day? Do the directors of the Canadian National Railway or the members of parliament have anything to say about the management of the Canadian National Railway? My friends, the men who will run this bank will be the governor of the bank and the officials of the bank. You are creating a monetary dictatorship, the same as you have in Great Britain where Montagu Norman has been recognized as the real ruler during the last sixteen years. I suggest that the policy of the legislation now needed might be described in the following language:

> The assumption by government of the responsibility of controlling and regulating the operation of all economic factors upon which depend the normal and prosperous course of the political economy, and the stability of the social system to the end that "the greatest good shall be rendered to the greatest number," and to the purpose that everyone may enjoy the greatest measure of individual freedom compatible with the rights of others and that "all may live in safety enjoying life more abundantly, under their own vine and fig tree."

I have proposed to make some changes in the general outlook of government in the matter of its administration, and I say to put that policy into effect you must have a four point plan of administration. You must establish a national bank system controlling the issue of all currency, and monetization and issue of credit transferable by cheque. Can you as practical political leaders, responsible for the passage of laws, conclude that you can finance a government with the issue of national currency? Can you do that? Because if you can, you can provide the government with an abundance of purchasing power. You can eliminate taxation. Can you do those things? I submit that you can, and I submit that the proof that you can do them is to be found in what has been done. In explaining what I mean by that, let me draw your attention to the economy of a fifty-cent silver coin. You take your fifty-cent coin, and you find printed on it, "Dominion of Canada, fifty cents." You don't find any promise to pay, such as you find on your paper money. You find a declaration that it is fifty cents. If you check down on it, you will find that that fifty cents has only about twelve cents worth of silver in it. Therefore, 38 of the one-cent units in the 50 cent coin have no substance or value. When the government mints a 50 cent coin and pays it to a civil servant for 50 cents worth of labour, the government makes a profit of 38 cents.

By Mr. Robinson:

Q. Less the cost of production?—A. Less the cost of minting, which is small. The government buys the silver for 12 cents, and the cost of minting, amounts to a mere item. For the purpose of argument, I would give you a cent for the cost of minting the coin. Thirty-seven cents, we will say, is the profit of the government. Where does it get the right to do that? That comes through the expression of the authority of the government to create money by enacting laws. Money is nothing but a tool with which people buy. It must, in the nature of things, always be the creature of the law. Sharks' teeth, sea shells or any form

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of money that was used in pre-civilization periods were money by the law of custom. When we create money, we do it by enacting laws in parliament. You can't have money without law. When we declare that so much silver, minted in a certain way, to be fifty cents and agree to put it out as a medium of exchange, it comes into circulation and it circulates indefinitely until it is lost or comes back to the government as payment of 50 cents' worth of taxes. It serves mankind, and it serves the individual's ideal of money successfully. The individual's ideal of money—quite irrespective of what it is made of—is this: "I want something that I can conveniently handle, whose buying power will remain uniform over an indefinite period of time." We now find that paper bills and silver coin of no intrinsic value are just as valuable as money as gold coins or paper bills convertible into gold ever were.

We have now established the possibility of using token currency successfully, but we only use that as petty cash, for current out-of-pocket expenses. For the bulk of our transactions we do not use gold money or token currency. We use cheques, transferring bookkeeping entries that are not redeemable in either money or gold. If it were not for the fact that it is more convenient to put your hand in your pocket and get a dime for a cup of coffee, you would write a cheque for everything; because the cheque system is the most efficient system of consummating a monetary transaction that we have yet developed; and that is a product of education. We educated men sufficiently to permit them how to read and write cheques. We gave them elementary teaching in arithmetic. They gained an understanding of simple accounting, and it was not very long before they adopted the chequing system and made it a universal practice. In 1929 our total cheque transactions in our banks were $46,000,000,000 in Canada. Chequing transactions in the United States totalled $983,000,000,000. If credits can be issued by banks and successfully used as a substitute for money, why should a government be short of money? Because, mind you, these banks that issue this thing are the creatures of the government. You pass a bank act, and you authorize the bank to set up a bookkeeping system. You authorize that bank to print money, printing press money, no gold behind it. Red hot off the printing press, it can be exchanged for interest bearing bonds. Your banker can do this. He can go to a broker and say, "Yes, I will give you credit in the bank, and you can underwrite national government bonds, and I will authorize you to write a cheque in favour of the government. You can buy its bonds with my bookkeeping entries." He does it right along. How does he do it? The banker says, "No, I don't do that." All right. How did he finance the war? We were told when the war came, that it could not last long, because there was not money enough in the world to finance it. Why, we could have financed ten wars with the system under which they were operating, and all the time we were growing richer in bank deposits. That is exactly what happened. We had $1,000,000,000 in bank deposits in 1914, which was far in excess of our gold reserves. It was spread out on the basis of nearly 20 for one then. Our bank deposits were all loaned out in debt claims, and we were bankrupt in 1913. From one end of Canada to the other there were soup kitchens, men without employment, and business was in disaster. Thousands of men were in destitution then just as they are to-day, and what happened when the war came? We didn't have any trouble in issuing a government contract for war supplies with enormous profits to the war contractors included. That government contract was taken down to the bank, and an over-draft or a bank loan was advanced against that security. Deposits were created, and war contracts were financed. As those deposits accumulated, brokers underwrote bonds with bank credit, and they were washed through and distributed among the public. Now when the public is being washed out of its money, its bonds are drifting back to the banks to wipe out what? To wipe out over-drafts, to wipe out loans. This enormous accumulation of high grade securities in the form of national bonds, provincial

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and municipal securities that are now in our banks are drifting in there to wipe out bank loans, or bank over-drafts. They are not increasing, as the bankers sometimes claim, the volume of purchasing power in circulation. When acquired in this way they become frozen credits in the banks' repository of credit. That is bound to happen. If you set up a national banking system you issue your own credit, but you issue it in the form of money or credits that are transferable by cheque. You issue it in the form of credits such as are now established in your banking system. Suppose you pay a pension—and you can pay decent pensions if you will administer your own credit—and you give a man a cheque for a pension drawn on the national bank, the same cheque that is to-day drawn on the Royal Bank or the Bank of Montreal, or whatever private bank has the privilege of handling funds of the department involved. What does the man who gets that pension cheque do with it? He takes it down and pays his bills with it. He hands it over to his grocer. What does the grocer do with the cheque? He puts it in the bank, and as the result of transfer of accounts he has a deposit account, and so credit circulates just as your 50 cent coin circulates; because once you set that bank deposit system up get it in circulation, it goes along from person to person to and from generation to generation.

By the Chairman:

Q. Mr. McGeer, may I interrupt you a moment; about how much longer will you be, because I do not think we can give you very much more time?—A. Well, you can cut me off any time you want to.

Q. I suggest that you might wind up your statement. If you have it in writing, you might perhaps do as much as you can. We don't want to shut you off, but we can't give you an unlimited time.

Mr. IRVINE: Give us your other three points.

Mr. EULER: I suggest he be given a chance to develop his plan.

The CHAIRMAN: I want to do that, but it is now nearly one o'clock. I suggest that he continue and give us his plan.

Mr. EULER: Yes.

The WITNESS: If you care to adjourn now, I will probably be able to put it in definite form by the time of your meeting, Mr. Chairman.

The CHAIRMAN: Couldn't you give it to us now? You have it in writing, I understand?

The WITNESS: No, I have not got it in writing.

The CHAIRMAN: Would you indicate about how much longer you will be?

The WITNESS: Well, I should think I would be able to explain that plan definitely inside of an hour.

The CHAIRMAN: Well, we will adjourn until four o'clock.

The committee adjourned at 12.55 p.m. to meet again at 4 o'clock p.m.

AFTERNOON SITTING

The committee resumed at 4 o'clock.

The CHAIRMAN: Mr. McGeer will proceed with his plan.

The WITNESS: Mr. Chairman, at the noon-time adjournment I pointed out that the remedy I suggested was based upon a four-point plan; these four points are:—

1. A national banking system controlling the issue of all currency and the monetization and issue of credit transferable by cheque.

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> 2. A department of taxation empowered to prevent excessive accumulation of currency and credit note issue.
>
> 3. A department of economy for the regulation and control of all internal trade and commerce.
>
> 4. A department of foreign trade for the development, control and regulation of international trade, commerce, currency and credit.

I think there is authority for this four-point plan in the Macmillan committee report which was published, after being filed with the British government in 1931, and I should like to refer the members of the committee to the sections of that report which I think warrant the plan that I am outlining. Sir Josiah Stamp, in dealing with that report, made this statement: "The Macmillan committee report is easily the best up to date textbook on the financial system. There is more here of intelligible exposition than can be found elsewhere."

Now, as I read that report, it marks I think in an epochal way the beginning of economic planning for the British empire. It says, in section 280:—

> The monetary system of this country must be a Managed System. The major objectives of a sound monetary policy are the avoidance of the credit cycle and the maintenance of economic and social stability.

And points out that these objectives cannot be attained unless the money system is managed by "individuals placed in a position of unchallengable independence." The words "unchallengable independence," mean more than the mere independence of political influence. It also means complete independence of one's self interest. The managers of the money system must be placed in that same position of sacred trust and responsibility that we impose upon the members of our judiciary; because the management of the issue and circulation of the purchasing power medium of exchange is just as essential to the well-being of the social structure as is the administration of justice.

Dealing with the necessity of the times, the committee says in section 118 and addendum 1, section 2:—

> The best hope of a remedy (for the existing depression) lies in a monetary policy designed to increase the volume of purchasing power, to decrease interest rates, and to stimulate the spirit of enterprise and the volume of investment.

This is simply nothing more than the statement that the volume of active capital in circulation as wages, and as productive active capital must be increased. The report then deals with the bankers' method of treating deposits. "Since the bankers, as a whole in operating practice maintain a cash proportion of deposits of roughly 10 per cent of the cash, the bulk of the deposits arise out of the actions of the banks themselves; for by granting loans and allowing overdrafts and purchasing securities, a bank creates a credit in its books which is equivalent to a deposit." And if you want to find out in detail how under the English banking practices, which are now established in Canada, and in the United States, deposits are created, let me refer you to sections 70, 74, and 75 of the English Macmillan report, and you will find this, that the bankers as a matter of general practice, create deposits in this particular way: A man comes to a bank for a loan, and he deposits his securities with the bank; the bank then creates a deposit by making an entry in the banker's books, which is transferable by cheque. By actual practice the bankers know that if they hold 10 per cent of their total volume of deposits in cash, they will have enough cash on hand to satisfy the demands of the public for till money or petty expense account money, and a sufficient amount under a modern banking system to settle inter-bank balances that arise when the issue of cheques against the bank fails to balance with the cheques deposited with it.

That does not mean, as a great many people do assume, that a bank with $10 or $100 of legal tender cash on hand, can, under all circumstances, issue and use $100 worth of bank deposits; but under favourable conditions when there is a speculative activity on, such as the stock boom of 1929, the banks can and do use as money as much as 15 credit dollars to every dollar of cash they have on hand. And in the Dominion of Canada, where the bulk of your till money is issued, on the bank privilege of printing its own money, a very small percentage of legal tender cash is held, and that is held almost exclusively in Canada for the purpose of settling inter-back balances. The creation of the vast volume, at least, 90 per cent of the medium of exchange that is now used to consummate monetary transactions, including the spending money of the government, and the buying power of the consumer, is created by the operation of a bookkeeping system. That brings us to whether or not it is necessary to hold gold reserves against the issue of national currency or against the issue of monetized public credit in a National Banking system.

In section 148 the Macmillan report says:—

> It is not necessary that the volume of note issue (the creation and issue of national bank credit, which I have added, because it is the same thing) should continue to be regulated as it is now, by reference to the amount of gold held in reserve.
>
> Gold should be held primarily to settle international balances and not to support domestic note issues. There need be no obstacle for the creation of a large increased volume of purchasing power, without any increase in the supply of gold.

Section 45 of the report says:

> In the modern world gold plays in the main only an indirect role in the determination of price level, because the circulating media consist overwhelmingly of paper money and bank deposits transferred by cheque.

What happens when governments spend money directly without going through the process of borrowing on interest bearing bonds. Section 24 and 210 of the report says:

> When governments pursue an inflationary policy (i.e., meet expenditure not out of revenue or loans, but by the issue of paper money, or as I propose) by the creation of credit in a national banking system forces are set in motion increasing profits and wages and additional spending arises. An expansion of credit and currency has a complicated effect upon the price level.

Now, as a matter of fact, one of the oldest orthodox theories on economy, which has largely governed our whole monetary system up to the present time, is the quantity theory, which says, shortly, that all things being equal, prices rise and fall with the expansion or contraction of the volume of currency in issue or the volume of buying power in issue. This is not true, and in the nature of things, it cannot be sound. If you examine W. T. Layton's Standard Text Book on Prices, you will find in the chart at the back of the book that while the volume of gold has steadily risen, the line of the chart since 1800, shows the volume of prices has steadily fallen. It is quite true that during the period of excessive expansion of expenditure such as in a war period, prices do rise; but they do not rise because of the increased volume of purchasing power. They are just deliberately manipulated upward or maintained at higher levels by governments for the purpose of increasing the activity of production. For instance, by governmental action the price of wheat was raised up and up until it got to $2.80 a bushel during the war period. But that was a fixed and pegged price. When we wanted to build ships or to do any of the things that were necessary to bring war supplies into being, we definitely raised the price;

but if you will examine what you can get to-day as compared with what you could get for the same money in 1800, you will realize that with the increased volume of purchasing power, the volume of production increased. We buy automobiles very cheaply to-day only because there are enough people in the world buying automobiles to make mass production of that extremely costly article a possibility. We can get units of travel on ships and railways and in hotels that a king's ransom could not buy 100 years ago. That low level of prices on both the quantity and quality that we can get to-day is the result of an increasing volume of purchasing power. Very nearly every one of your pre-war academic theories are just as unsound as "the quantity theory of money." The Macmillan commission do point out that when governments expand and increase purchasing power, prices that are very low due to depression, will rise; but they do not mean that of necessity the increased volume of purchasing power will raise prices and not lower them; because mass production and competition have always in the long run reduced the unit cost to the consumer.

Now, when we come to the question of controlling prices, the thing which we formerly left to unbridled competition, and which we find out is not working, we find that the Macmillan committee in sections 24 and 210 say:

> There is nothing inherently impractical in the exercise of the government's power to deliberately control the price level. We should be ready to attempt the task and to gain experience by practice.

In section 340 they say:

> If the view could be generally accepted that gold reserves to-day are held solely to meet temporary deficiencies in the balance of international payments, and if their amounts were determined by what was reasonably necessary for this purpose, this would be the greatest safeguard we can imagine against the risks of a future shortage in the supplies of gold relative to the natural growth of the world's money income, for international purposes.

When they come to deal with this depression and I think when you read and study the Macmillan committee report you will have to remember this, that it was written along about the time when it was not known whether England could or could not stay on the gold standard. Within two months of the filing of the report England was forced off the gold standard and it is because of that fact the addendum signed by McKenna and Keynes and other members takes on an added significance; but right in the main report you find this view:

> The vicious circle is complete. The decline of new enterprise has re-acted adversely on profits and prices, and the low level of prices stands in the way of new enterprise. It is for this reason that some of us think that in the domestic field it may be necessary to invoke governmental enterprise to break the vicious circle.

The British government is moving with national credit to stabilize the pound in international world markets. They are contemplating all manner of public works and public enterprises, the electrification of railways, drainage and slum clearances are now beginning to be undertaken just in exactly the same way that the president of the United States, to break the vicious circle there, moved to put money into circulation by promoting a great program of public works and social services, that the committee pointed out in 1931 would be necessary.

Here is the most important point, I think, in their whole report:

> A study of history would, we believe, confirm the opinion that it is in the changes in the level of prices and in the consequential alteration

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> of the position of debtors and creditors, entrepreneurs and workers, peasants and the tax gatherer, that the main secret of social trouble is to be found.

If then, upon those conclusions of the latest text book on modern economy we can build for Canada a monetary structure, a system of planned economy that can stabilize the price level and eliminate those disastrous cycles, we probably will be doing something that will not only be a lead which the other nations of the British Empire can take, but as the outstanding overseas dominion of the British Empire, we will probably be able to do something to place the British Empire back in that leadership which will save this world from the disaster which must follow if pagan rule assumes control. And I propose to draw your attention to the possibilities of taking these recently defined principles in the Macmillan report and converting them into practical political action. In that connection I wish to submit to the committee a bill which I have drawn. Let me say, Mr. Chairman, that after some 20 years as a public man, some of which has been spent in the legislatures, I quite appreciate that the bill I have drawn would have to be submitted to revision. It is not submitted as a final piece of legislation; it is merely submitted as a basis, indicating the type and form of legislation that is required to put into effect the principles I have quoted. In trying to get my own ideas down to the point where I could convey them to others, I looked about for a practical analogy. My analogy is this: The circulation of purchasing power in the social system may be likened to the circulation of water in an irrigation system. If you have purchasing power flowing freely into a social system through the distribution of wages, you cannot have anything but good times, because wage earners spend their money. No matter what remedy you offer, gentlemen, you will never find a substitute for the weekly pay cheque, that provides the necessities and comforts of the workers' homes. That is, and always will be, the basis of real prosperity in any nation. Water in an irrigation system must have a continuity of supply. You must have the means of putting it where, and when it is needed, and then in most cases it will run away itself, which credit will not do. Credit has a tendency to accumulate and people fear, as a result of the accumulating power of money and credit and quite rightly recognize the danger of inflation; and I am not underestimating the danger of an excessive volume of medium of exchange poured indiscriminately into the social system.

I think that this chart which I have drawn can portray how I would circulate in a continuous flow the medium of exchange that is necessary to maintain prosperity; and in this plan that I propose, I take away gold as a security for wealth, and I place the security for all wealth the purchasing power of money included, upon its real and proper foundation, the going concern activity of your social system. I give the government power to maintain the going concern activity of the social activities of the people. If we have an article and no one is using it, it will not have any value. If people stopped using gold it would have no value. It does not matter how much gold we have, if people stop using it as money it would drop to $2 an ounce overnight. If we have a pair of shoes on a shelf, they are only valuable because somebody is going to destroy them by wearing them. You have got to circulate your purchasing power, not against a fixed thing like gold, but you have got to circulate your purchasing power against the destruction of wealth. You have to provide the means by which the consumer can buy and destroy and buy again. That can be done, and by so doing you can maintain the going concern values, and real asset of business, of labour, and all accumulated savings, and you can re-establish the value of provincial bonds and stocks and bonds of private industry, because if you put our social life into action, that enormous

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volume of accumulated wealth the value of which is now in doubt, can be restored to active life and to price values. I do not think it is a difficult problem, if we are willing to assume the responsibilities that go with it.

Our national mint is available. The mint can do all that it is doing now. It can mint the copper coin, the silver coin, the nickle coin, and issue all the legal tender paper currency that is required to sustain the money system of Canada. It can take charge of all the gold and silver that is required to maintain the settlement of international balances. The mint is already available and is doing part of that work now. There is no revolution necessary to put your mint to work doing all the work in issuing both metal and paper currency for internal use, and managing your bullion reserves for international use. Your national mint then provides your national bank with all the currency that it needs, both for the supply of government and for the supply of the merchant banking system.

Your national bank then finances the government, in exactly the same way that this bank that you are proposing by Bill 19 is going to issue money on a 25 per cent gold reserve. You would issue money by authorizing your national bank to exercise the power of government to create deposits and transfer them by cheque, you would issue to create national credits in a monetized form, instead of calling upon a private bank to monetize them as you do to-day. Did you ever stop to think what you do when you issue finance government to-day. You issue bonds carrying interest, but you issue them as a frozen asset. You cannot spend a bond because you cannot distribute it by a cheque, but you can take your bond into a bank and let the banker write a credit in his book, and then you can spend that bond, or its credit value, by writing cheques against the book-keeping system. Do you mean to tell me, that if you can do that in a private banking system that you cannot finance governments with national credits and national currency, issued through a national banking system? Of course you can, and the Macmillan committee, and even Alexander Hamilton in 1790, knew that you could do that. All right. Your government then is not limited for spending power. You do not have to ask people to live on a meagre allowance and to suffer destitution; you do not have to refuse your obligation to look after orphans, and see to it that a decent pension system is provided for your pensioners; you do not have to be niggardly in providing for the economic security of your own people after they have attained the age when retirement should be their privilege. Governments controlling the credit wealth of the nation can take upon themselves the power to function, in the expression of the normal desire of men, to use the wealth of the nation in the service of humanity. Men say to me, "That is all very nice, McGreer, but the government would spend a lot more money than they are spending to-day." Of course they would. You have not got a city in Canada from Halifax to Alberni, that is of a class A 20th Century standard. Your railways are below standard; you have obsolete machinery in every industry; your schools, your hospitals, your universities do not measure up to the standard that we should have in the 20th Century. Yes, we could take every city in Canada and tear it down and rebuild it; and we would have to do that if we were going to attain 20th Century standards. And that would be a much better way of engaging the unemployed than the course we are now pursuing. Our serious unemployment to-day is not only in the men unable to exchange physical labour for a living. Our disastrous employment, Mr. Chairman, is the unemployment of the available intelligence; it is the unemployment of the enormous plant and equipment that we have available to create the things that men need for the greater comfort and greater contentment.

Can we finance progress and prosperity? There is something wrong with us if we cannot. Yes, they say, if you do what you propose, how would you

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handle the provincial situation? You have got nine provinces in the Dominion, each one jealous of its own autonomy, each one protecting itself, and unwilling to hand over to a national government the control of its internal economy.

I would establish a sub-bank in each one of the provinces, and would see to it that the constitutional rights of the people of the province of Quebec, the constitutional right of the people of the province of Ontario, and the people of the Maritime provinces, and the prairies, and British Columbia, would not be interfered with in any such way as they might be interfered with if you create a dictatorship of money such as is now proposed. I would have those sub-banks correlated with your national banking system; and those sub-banks would perform the same banking service for your provincial governments and your municipal governments that your national bank provides for your national government. Yes, they would have to budget together. But we could do a lot of things that are necessary to be done in Canada under that system. We could unify the standards of education; we could make a uniformity in the standard of wages. For instance, out in my province—British Columbia—we are in the canning business. We propose to raise the standard of wages, the standard of working conditions, but we find ourselves competing with conditions that exist in Ontario and Quebec; and we find, to make our plan successful, that we have got to come and get into step and come into agreement with the operators in the eastern provinces. Yes, we could go a long way towards ironing out those differences by having a uniform system of financing.

Then, they say, you pay all the expenses of Government with a national issue of currency and credit, and you would have everybody working and everybody prosperous. And my answer is, Yes. And I think that that is more of a normal condition in this age of plenty than having a few abnormally prosperous, and the bulk of us wondering where the next meal is going to come from, and a whole army of us deliberately in destitution unable to get anything but the meagre doles of government charity. The day before I left Vancouver, 200 men appealed to the local gaol to be locked up so that they would have a place to sleep. That is not good enough.

Now, they say, what would happen, would you pour out money for everything? Yes, I would. I would build better schools, better institutions. I would pay men to go to school, and my standard of issue would not be gold, but it would be based on the elimination of unemployment. Is that unsound? If I invest public credit in making for the health, the wisdom, and the contentment of the people, am I not creating the soundest form of security upon which the economic system can rest? Then, if so, what would you do to carry away the surplus of money that would be put into use through your system, you would have the worst kind of inflation. But you can take care of that situation. We have perfected the technique of issuing credit as a substitute for money. That technique has been perfected by the bankers. But what have we done with taxation? We have perfected the power to tax a man out of everything he owns. Now, if you correlate your power to tax with your power to issue national currency and credit you can hold your volume of money purchasing power, or credit purchasing power at any level you want. You must set up a department of taxation. Each of your provinces and each of your municipalities have a similar department. They work in cooperation to regulate circulation but they do not tax to maintain government, but they tax to prevent inflation. What taxes would be used? No new taxes. Just as I say, you use no new technique in issuing credit to finance government, because the banker is using a bookkeeping system to finance government loans. You just use his technique; you use the technique in taxation that you are now using. Your probate and succession duty taxes, your income and excess profit taxes can

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be used to prevent men from accumulating more than they should. I do not want to see fewer millionaires in this country than are here now, I want to see more. I do not want to see men regimented into a position where the exact amount that they are going to be privileged to have is fixed. I want a greater measure of economic freedom and economic opportunity, but I do not want any multi-millionaires, I do not want to allow men to accumulate far too great a share of this world's credit power. That is part of our trouble to-day as it has been in the past. If you exercise the power to put public credit into circulation augmenting the circulation of private finance, you can prevent the disaster of inflation by withdrawing credit and currency from circulation by imposing municipal, provincial, and national taxation; in that way you can place the circulation of buying power under control, you have the power to establish prices, and even can maintain your level of business at any standard you want to.

What would I do with the merchant banks? I would create much more business for the merchant banks. I would create a volume of purchasing power in circulation that would put the legitimate business of the merchant banker upon a much higher plane than it has ever been on before.

What is the business of a merchant banker? Surely it is to take people's money and deposit it and add it to the capital of the merchant bank and to wisely invest it in safe productive activity. That is a legitimate private enterprise, and a service that every prosperous community needs, and I think it would be a great mistake at this stage, whatever may develop later, to talk about socializing private finance or nationalizing the merchant banking system. The merchant banking business operates just as the Canadian merchant banking system was originally intended and as it did function up until recent times. It is only in the last twenty-five years that our Canadian banking system has gone into the business of financing long term credits. Your Bank Act in Canada never was intended to permit our merchant banks to do what they are trying to do to-day. The late heads of the Bank of Montreal never agreed to that kind of thing. Financing 30, 60 and 90 day credits is the business of the merchant banker. The merchant banker under my proposal, can invest deposits up to the amount of the money that is deposited with him and, up to the amount of their own capital. The merchant bank can make investments in the social system, but under this system they cannot issue credit as a substitute for money. That is a privilege that they never should have enjoyed; that is part of the public domain and it should be restored to government. And in taking that power away from the merchant banker, you are only taking away from him something that he has not been able to manage, and that he never was entitled to possess. Yes, your merchant bank can function successfully in the system I propose.

Let me point out to you, that on this question of inflation there are more dangers than merely the issuing of national currency. There are at least four ways by which the system can be disrupted, by a disturbance in the price level. National governments can issue too much credit; and they can issue too much of interest bearing credit as well as free credit. Banks can issue too much bank deposits; they can inflate, and they can encourage disastrous speculative booms.

Now, in so far as those monetary factors are concerned, they are controllable under the monetary system, but you cannot control such a situation as this by any monetary system, I do not care what it is. If I want to go out and buy a $25 share of mining stock that is worth only $3, it does not matter how much money is in circulation, if people want to go crazy on prices they can; you cannot control them by managing the monetary system. You cannot prevent, by monetary action or monetary management, men forming a trust which monopolizes a commodity and regulates its price either upward or

downward. Those are factors that are non-monetary. You cannot, for instance, by putting out money and bringing it back again prevent the milk driver's union from raising the price of milk, we will say, to a point that imposes a disastrous imposition upon the plumbers' children. You can work out those differences that creep in to the various structures of our social system; and there are great discrepancies between those structures. You take the structure of medicine, the structure of law, the structure of industry, the structure of labour, structures interlocking throughout; there are many very great disparities that under a proper system of economy can be ironed out and a greater equity established.

You can do those things by setting up a department of economic control. When I spoke of that before Mr. Roosevelt inaugurated the N.R.A., some people said those things could not be done. Well, they are being done in Italy; they have been done in Germany; they were being attempted in England, and with all the ballyhoo that is going on, it is being made plain that they are being attempted at least in the United States; but I have no hesitation in saying that the Roosevelt program must fail. You cannot succeed on an economic scheme of planning for a nation unless you are prepared to nationalize and administer credit, because the cost of government is bound to increase, and if you try to pull yourself up with your boot straps and load yourself with national debt you are only moving to disaster. And unless Roosevelt carries out the plan which was indicated recently by the chairman of the Reconstruction Finance Corporation, that if the bankers do not put credit into circulation the president would be forced to nationalize the banking system, the United States is headed for one of the worst economic disasters that has ever hit that extremely unfortunate country. It is inevitable. Take the chart of national debt:

1914	$ 1,000,000,000
1920	26,000,000,000
1929	16,000,000,000

And, in 1934, it has increased to something between thirty-two and thirty-seven thousand million dollars. Yes, they have heaped their debt up, but the depression has not been cured in the United States. The credit corporation grew into the Reconstruction Finance Corporation, and all that Roosevelt has done to date is to extend the measure of assistance that Hoover contemplated by borrowing credits and spending at the expense of greater national debt. That is bound to end in disaster, and that is what the Macmillan committee pointed out must be avoided.

Now, when you set up your department of economic control, it is not necessary to socialize everything—to pigeon-hole everybody in a definite place. I think that all that department of economic control needs to do is to work along the line that has been recently suggested in a great many places in Canada, of improving the ethics of business by establishing codes, by eliminating the dangers of extremes. Yes, if you see your people headed for a disastrous speculative spree such as they were on in 1929 in stocks, or if you see them going crazy on gold, as they are to-day, or if you see any of those real estate, or timber or commodity booms in process of formation, your economic department of control can step in and prevent it going to the extreme and disaster. It can also prevent the selfish man and greedy individuals from exploiting privileges.

It is in that way that I think we can secure a great measure of success, and a more effective expression of true democracy. What we can do is this: We can change our system of government which is anti-christian. We can abandon the pagan practices of ancient Rome. To-day the government is very largely an institution; that it is maintained for the purpose of creating monopolies and privileges under which a few enjoy the protection of the gov-

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ernment in their deliberate scheme of plundering the multitude. Now, that was one of the very things that the old roman emperors, governors and senators, saw as an objective of conquest. They set up their various privileges and monopolies, and then used the power of the government to protect and maintain them. I do not venture to say that we should wipe out all private freedom, but we can bring everyone under a reasonable measure of control, so that we do not need to socialize the whole system.

Under my system, you can have a system of planned economy in Canada. You can finance government and progress by a judicious issue of public credit; you can regulate its circulation and avoid inflation by taxation and you can control prices, wages, production, distribution and competition by economic control. And then everyone will say, Well, what about national buying power, we cannot live alone, we are producers of surpluses of agricultural and natural products that we must exchange for the products or the currency, or buying power of other countries. And with that I agree. International trade in Canada must be increased, but it must be put on a sounder basis than we have had in the past.

How can you manage your international trade? You must set up a Department of International Trade whereby your people can be prevented from buying more than they are selling, and I think in a very short time, in this 20th century, we are also going to learn that favourable trade balances are just as dangerous as unfavourable trade balances. These must be avoided. We are coming to a recognition that international trade is not economic war but a fair exchange; we are also coming to a recognition that each nation must consume the equivalent of its own productions. You have got to be aware of what is taking place. Japan goes down to India and makes a bargain—not a Japanese merchant making a bargain with the Indian cotton grower—but the Japanese government with the government of India, a protectorate of the British Empire, and the bargain is: We will take 1,500,000 bales of cotton from India if India takes 400,000,000 yards of cotton print goods from Japan. And the bargain is closed for a five-year period. The United States goes to Brazil and trades wheat for coffee. England enters into a number of bargains with Denmark, Belgium, and different European countries, including South American countries, to take a specific amount of the certain things that they are importing in consideration of an exchange of goods. In the World Economic Conference, Litvinoff sat down with the representatives of the British government and the American government and consummated a bargain to take dollar for dollar in goods. Similar bargains have been made by Litvinoff with Italy, and with France, and with Germany, and with Czechoslovakia.

Gentlemen, as those charged with the responsibility of Canada's future trade policy, how are you going to continue to live in 20th century trade unless you are prepared to create the facilities in Canada that will permit you to trade with other nations that now have those facilities definitely established? On the first day of April, after a three-year program, the nation of Japan completed its organization whereunder Japan now has complete control of the international credit and trade activities of the Japanese people. And Russia has done the same thing. I do not propose to suggest that we should pattern our policy after that of either Japan or Russia; but I am suggesting to this committee of the Canadian House of Commons that we cannot afford to ignore what those nations are doing—Japan controlling Manchuria, and Russia with a vast area of undeveloped wheat lands yet available. If we are not prepared to move we had better prepare to build tariff walls around Canada, because they will be bringing in Russian wheat, and Manchurian wheat, and Manchurian flour and Russian flour, and selling it cheaper than we are doing at

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home. We have already had something more than New Zealand butter coming to the Canadian Pacific coast. We have had some shipments of Australian flour that came in when the exchange rate of the dollar and the Australian pound made it possible to undersell Canadian flour right on the Pacific coast.

Yes, you have got that problem to deal with, and you cannot escape it. If you ignore it and refuse to accept the responsibility that is yours, then your nation is going to suffer. Your Department of International Trade can do this: I do not say that it can balance always the exact amount that you buy with the exact amount that you sell, but I do say, that by proper management you can keep your balances within those rather circumscribed limits that are possible out of the available gold reserves. When you realize that in 1928 you did upwards of $2,600,000,000 worth of visible trade, and if you add your invisible trade to that, I think it would probably come close to four thousand million dollars, when you are doing that much trade, Mr. Chairman, and gentlemen, you have got to balance pretty carefully to be able to settle any difference that might come out of a possible one hundred million dollars of gold, and that is one thing that I would like to draw to your attention now.

If we are going to break this depression with gold under the plan of increasing the value of gold and issuing currency by buying gold at high prices, by exchanging nonconvertible credit for gold, this is what we are actually doing: We have made our bank credit and our national credit convertible. We bought the increased gold production. When a man digs gold out of the ground now he exchanges it for a nonconvertible credit or a nonconvertible currency, and the gold is then put away in reserve for international purposes. President Roosevelt was apparently advised that if he would put the price of gold up to $35 an ounce and buy it at that price, that foreigners would sell their gold to us and secure American money with which they would settle their debts to the United States, and in that way the buying power and the spending power of the American government, would be increased, but, in addition to that, if the price of gold increased to $35 an ounce foreign countries will sell their gold to us and use that money to buy American goods. Well, it has not worked out that way, because Great Britain, instead of falling in line with that policy, turned round and started to buy gold at the same price, and instead of selling her gold and liquidating her debts to the United States she is conveniently overlooking the debt to the United States for the time being. There was nothing provided in the last budget for the debt payment. Other countries are not dropping their tariffs to let American goods in, and they are not going to.

For those who think that we can bring prosperity about in that way, let me say that you would have to raise gold to something over $100 an ounce, and you would have to use silver at a proportionate increase in price to that. My own studies have led me to this conclusion, that even if we are going to use gold and silver in the future for international settlement bases, we will probably have to raise the price of gold to $50 an ounce and the price of silver to $3 an ounce to get enough silver and gold bullion to maintain the possible international trade, that can be done, but it is a great mistake, I think, at this time, to put a tax on gold in Canada. One of the things that we should be doing is, I think, bonusing the production of gold so that we can liquidate more effectively our tremendous foreign debt to the United States.

Now may I just refer the committee to what I think can be done under this plan? Suppose we take the Canadian wheat situation. Wheat is a large product and is produced in great volume in Canada. When the prairie farmer is able to buy canned goods in Ontario or British Columbia or lumber or manufactured goods, we have fairly good conditions in the Dominion. Could we have such good times if there were no world market for wheat at a money price, I think we could. I think we could with a national banking system; and mind you, the

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national banking system could finance the purchase of goods that go into the international trade department for distribution abroad. I would pay, under this system, $1.50 for Canadian wheat, and I would correlate the price of lumber and wages and other commodities to that base price of $1.50 for wheat, and I would put that base price of $1.50 for wheat into the department of economic control and have them use it out as a guide for the basis of other prices in the Dominion.

When I pay the farmer $1.50 of Canadian credit for his wheat, he would have $1.50 to purchase Canadian goods. Then, if I took that wheat and sold it, I might get more or I might get less; but all that I would have to recognize was that possibly of my importations of tropical goods, fruits, teas, coffees, and a host of things of that type, that we cannot produce, it might have to be less but I might have more.

Mr. BAKER: Suppose you could not sell wheat at all, what would you do?

The WITNESS: I would say if the time ever came when we could not sell wheat at all, on a basis of fair exchange, we had better get ready to live like the Eskimo; but I cannot conceive of that condition ever happening. Well, I cannot answer an absurd question which I cannot conceive as a possibility, because there is no possible answer.

What I say is this: I am living in a world of practical men, conceiving that there are practical things to consider and practical times with which to deal and practical problems and practical questions to answer. I venture to say this, that there will be no time within the next 400 or 500 years when we cannot take our surplus of lumber, wheat and fish and agricultural products and exchange them for all we want of the goods we do not produce in Canada. I can take to-day canned salmon, lumber and fish into a dozen tropical countries, and bring back more lemons, bananas, teas and coffees than the people of Canada could eat. I can go to Japan and get all the silk necessary to clothe every farmer's wife in a silk gown, if I am willing to give out wheat and fish for it, and lumber. There is no difficulty in getting the goods that we do not produce. I can take the goods that we produce into Germany to-day and exchange them for another class of manufactured articles that we do not produce here. I can finance the Canadian standard, I can improve my international importations by intelligently managing trade. I cannot do it if I leave the Canadian unit of exchange in the hands of men who manipulate money in New York, London, and Paris. I know that it will not work out, and other nations know that it will not work out, and we are forced to set up some measure of economic independence in the administration of our own wealth. We can do that in Canada. I think it will be very surprising if you made an examination to-day and found to what extent men in other countries have through this depression become self-supporting. You cannot ignore what they have done in Italy; you cannot ignore what they are doing in Belgium and Holland. Modern science is not confined merely to electricity and engineering. Look at modern fertilization and modern conservation of food and your cold storage plants. By this means you have eliminated the wastage of the 19th century. A triflingly small amount of food produced to-day goes a much longer way than it did 100 years ago. Yes, if we are going to live in the 20th century, we have to develop 20th century national economic machinery. If we do that, we can live in abundance. It is stupid and absurd for you to conclude that a civilization that can manage the circulation of electricity cannot manage the circulation of its own credit and that it cannot manage the progress and development of its own trade.

I say this, and I do not say it facetiously or caustically, in my studies of economics, and I have not gone at them like an undergraduate, I took up the study under the direction of university professors, and I asked them for everything they had in the way of curriculum; I went at it with the mind of a mature man with some experience in politics, with a very wide knowledge of

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Canadian conditions which I gleaned from my association with transportation problems of this dominion over a period of nine years. I found that there is not a single problem in monetary economy that takes you out of the realm of simple arithmetic. You can use bookkeepers in a banking system, but you cannot use mathematicians. You can use nothing but plain reason and simple logic in practical economics. You cannot get into the realm of abstract thinking, because it does not apply to the practical problems of what we commonly call economy, which is merely the business of making a living, producing and creating the wealth, the goods and services and comforts that men need to live on. There is nothing abstract about getting people enough sugar, tea, clothes, bedding, housing and fuel. That is the problem that you have to deal with; it is a plain problem and a simple problem that every man in public life is quite competent to deal with. It is true that quite a number of problems have to be put together and correlated into a system as a whole. But if you take the four point plan that I have suggested and liken it to the four wheels of an automobile, you can see the four administrative facilities upon which we can build the structure necessary to carry the social system, as long as those four wheels are working, your automobile will go along. But they must all work together.

There are other questions that you have asked me, and I should like to deal with them now. They say first of all, where would you get the men to run this system; who can you trust with it; we cannot get politicians in Canada, who are honest enough to be entrusted with that responsibility. As a politician, I resent that, and knowing public men in Canada as I do, I think that the high traditions of public service that have been established in Great Britain have been well maintained in the Dominion of Canada. Look at what we are now doing? We quit farming out revenues and we established an official tax collecting department. To-day we collect our excise taxes and our custom revenues, and all manner of taxes. Whatever complaint there may be by the taxpayers of the Dominion of Canada, it is not to be found with the officials who administer that system. Quite true, we have an occasional break in our public service, and we repair it without delay. They have those breaks everywhere. A public opinion that can drive a mayor out of New York, that can put a secretary of the interior of United States government in jail, is able to maintain a decent respect for public service in the United States. Do we assume that our sense of public responsibilities is not as high as theirs? There is no reason for so concluding, if you set up the right kind of machinery, and place responsibility on a group of men to administer it, that the same high service both in efficiency and honesty that has obtained in the past in all public undertakings, will be maintained. I know that you say this depression is due to a reckless public in Canada that no one could hold in check. It was not the public that went wrong in the boom, my friends. Bankers, railway administrators, business men in every walk of life, expanded far beyond the needs of the time in the firm conviction that we had solved the problem of managing credit and that we would have an unquestioned period of great expansion. It was not the public that built the Royal York Hotel in Toronto; it was not the public that built the Canadian National Hotel in Vancouver; it was not the public that built the enormous stores in Toronto and Vancouver; it was not the public that built the Royal Bank of Canada in Montreal, or the Royal Bank of Canada building in the city of Vancouver. It was the mistaken officials, the group of men in charge of affairs that led the public on by their own evidence of confidence in the future. Now, I say, that to avoid those boom activities, should be a matter of real consideration by a group of men who have no interest other than that of maintaining a fair rate of progress. That can be done.

To come back to the other point, the most significant thing that was written into the Macmillan report is not that the system should be a managed one, but

that it should be managed by men of unchallengable independence. You must put these men in charge of this responsibility in a position of being responsible to the government and to the people of the nation for the honest and efficient administration. When you establish that public duty, you will find no difficulty in getting men to administer it. You have plenty of men among the officials of the Canadian Banking system to-day. I have no hesitation in saying that men like Jackson Dodds of the Bank of Montreal, and M. W. Wilson of the Royal Bank of Canada, could function just as effectively and administer a banking system of this kind as they are now functioning as the officials of a privately owned organization.

Mr. FRASER *(Northumberland)*: Is not that a contradiction?

The WITNESS: Well, I do not think so.

The CHAIRMAN: Let him proceed.

The WITNESS: What I say is that if you are called upon to administer for a private concern, a scheme which has the objective of creating private profit, and you prove that you can make a real success of that, it proves that you can manage a similar scheme when its purpose and policy are directed to create economic security in the nation, because the two functions are identical. It is not a change in the type of man so much as a change in the aim and object of the policy of your system. No, that is not a contradiction.

Now, at another juncture, you say to me: How would you prevent greedy business men and self seekers and exploiters from getting into that scheme? Well, I don't fear that very much, but for those who want it taken care of, I would put a couple of additions to the Criminal Code of Canada, and I think there is no reason why these should not be added. We look upon killing the King as a treasonable offence. Now, I do not know of any more serious type of treason than that of disrupting the economic structure of the nation. I would simply add another clause to the definition of treason, and it would be as follows: "Anyone who corruptly interferes with the proper and lawful operation of the administration of the Bank of Canada or any of its correlated affairs is guilty of treason." I would also add: "Anyone is guilty of treason who conspires with any person to corrupt the administration of the Bank of Canada or any of its affairs, or to secure any fraudulent misuse of national currency or to frustrate the proper and lawful administration thereof." Those additions to the Criminal Code would give a very great measure of protection against those who want to pollute the economic system. You might have to pollute the economic system. You might have to shoot a few men in Canada to keep your system going properly; but you would not have to shoot very many of them before the rest would know they would have to leave it alone.

The CHAIRMAN: Mr. McGeer, you must be very tired now. Are you pretty nearly at the end of the elaboration of your theory, or would you like to sit down and let those gentlemen ask you some questions? I am sure your physical endurance must be exhausted.

Mr. SULLIVAN: He is a pretty good talker, I like to hear him.

The WITNESS: You do not need to worry about me. I can stay here for a week.

Mr. IRVINE: Can you, Mr. Chairman?

The WITNESS: I do want to say that I appreciate the hearing I have had from this committee, and I want to thank you for the assistance I have received from yourself, Mr. Chairman. I appreciate your remark as a very kindly suggestion, but I do want to answer any question that any member of the committee has to ask me, and I do want to submit to whatever examination the bankers care to submit me to. I have attacked their proposal, their system, and their administration of it, and I do not want them to feel that even though I am here

at my own expense, I do not want to hurry back to Vancouver without submitting to every examination that they wish to put me through either by themselves or through any counsel they care to bring.

The CHAIRMAN: Now gentlemen, have you any question?

Mr. LAWSON: What I should like to ask is hardly a question. The witness has referred several times to a four point plan. It may be that my simple mind is not sufficiently alert to pick up those four points. So far, I have only got one, namely, that we should have a national banking system.

The WITNESS: Do you want me to give you the four points?

Mr. LAWSON: I should like the witness to give me, in a few words, points 1, 2, 3, and 4.

The WITNESS: The four point plan consists of, the national bank for the administration of public credit, the taxation for the purpose of controlling circulation and avoiding inflation; economic control for the purpose of avoiding disruption of non-monetary factors, and a department of international trade for the management and regulation of international trade and credit.

Mr. GEARY: These two departments, taxation and economic control are government departments?

The WITNESS: Absolutely, that is the theory. And they would, Mr. Geary, as I see the plan, function very closely with your national banking directorates and other governmental departments. They must all mesh in together.

Hon. Mr. MACKENZIE: You said in your evidence in chief that you were going to separate the ordinary functions of the mercantile bank from the control over the national credit, but you are going to allow the banks to carry on as they are at present without the control of credit. The difficulty that I have in dealing with your scheme is this. If you have the ordinary mercantile bank and deposits are allowed there, is there an automatic working of the credit system with the private bank system, and how do you control that? In other words, where is the line of demarcation between the national credit control and the private banks?

The WITNESS: I provide in the act I have submitted, a section which takes over the assets of banks, guarantees the deposits, and provides that the merchant bank shall function on the basis of loaning only or investing only the total amount of their deposits and their capital invested. Now, if you have no further control than that, the bank can pyramid loans. For instance, I could put a thousand dollars in the bank, and it is loaned to someone else. That person deposits the loan and it is loaned to someone else, and then up goes the pyramid again. The only way you can stop inflating on that basis, is to give the national bank power to compel the banker to re-deposit with the national bank whatever amount the national bank director sees fit to keep the system in line.

Hon. Mr. MACKENZIE: Do you also suggest control by limiting time extensions of credits?

The WITNESS: Well, those time extensions of credits are not a serious matter in a merchant bank. The cream of your merchant banking trade is 30, 60 and 90 day credits and your bank in a system that functioning normally has a fair turnover, and does not have the difficulties that we are having in times like the present. All our banks to-day are carrying an enormous load of credit. That is a matter that a private banking system should not be called upon to carry at all. That is one of the conditions of the time. If business were going along normally, you would increase the total volume of the merchant banking business five or ten times; but these are not normal times. Under this system, I think your bankers could make more money on that greater volume of business than they are making to-day, although they have the doubtful privilege of issuing credit and withdrawing it.

[Mr. G. G. McGeer]

If I might draw the committee's attention to the Macmillan committee report on that, you will find that it is a very illuminating section, and it will not take me a minute to read it. They propose controlling the trade of the country by reason of lowering the rate of interest, and by controlling and expanding credits. That was dealt with very fully by the Macmillan committee in 1931. You will find a discussion on pages 97 and 98, and a further more elaborate discussion on pages 121 to 123. It is their reference I should like to give you now:

> There can be no doubt in our judgment, that "bank rate policy" is an absolute necessity for the sound management of a monetary system, and that it is a most delicate and beautiful instrument for the purpose.

I think it was John Maynard Keynes who put that touch of sarcasm in there.

> If we had a more complete knowledge both scientific and statistical of what is going on in our economic system, it might be possible to act sooner with greater advantage, to correct aberrations before they have gone too far and thus keep business and enterprise on a more level keel. It would be better (if it is possible) to develop greater power of diagnosis, and not to depend so much on comparatively late-appearing symptoms.

The banker acts too late. That is how the thing works out, and that probably forced the committee on to write this section of the report:—

> Bank rate policy is quite a proper instrument, not only for the correction of temporary disequilibrium in the international loan market, but also for regulating the pace of expansion and enterprise at home and for putting pressure on costs to accommodate themselves to changes in our relative situation or in the international price level. But it is only adequate by itself for such purposes within certain limits.

They acknowledge that the monetary system would not do the things that must be done on the departmental economic control. Now, here is what they say:—

> When substantial changes in the level of our industrial costs are necessary to correspond to substantial changes in the value of money, changes in bank rate alone cannot hope to achieve all that is necessary. In such a case, however necessary it may be that bank rate policy should be employed to maintain the international value of our currency, some other supplementary means must be found to restore equilibrium. For consider how bank rate policy works out in such a case. Its efficacy depends in the first instance on reducing the profits of business men. When in the effort to minimize this result, output and employment are contracted, it depends on decreasing the amount of business profits and increasing unemployment up to whatever figure is necessary to cause business men either to decrease their costs by additional economies or to insist on, and their workers to accept, a reduction in wages. But public opinion does not easily acquiesce in such a process. And the reduction, if and when effective, will fall unequally, and unfairly on those sections of the community who are least protected by contract, least able to defend themselves, and often least able to afford the sacrifice.

And here is the situation to-day described by the committee:—

> Moreover, those who are in charge of our monetary system will—naturally and exclusively—be reluctant to carry through so ruthless a policy to its proper conclusion, with the result that we may continue for a long period in a depressed condition with severe losses and severe unemployment and yet with not enough of both to compel by *force majeure* the necessary readjustment of incomes. Moreover once such a condition of depression has become firmly established a policy of dear money will

> no longer be necessary to ensure its continuance; for it will contain within itself the seeds of its own perpetuation.

Now, what is report saying there is exactly what we are experiencing. Your bankers come in and tell you there is only one remedy, tighten your belts and wait for adjustments. You have had that before. Out in Vancouver, we have wiped out every dollar of equity in real estate in that city. I venture to say—and I do not care to mention other places, but from what I read in the newspapers—it must be very similar to that in the city of Montreal. Supposing British Columbia defaults, or a city defaults, what happens to the holders of the bonds of that community? Why, they must, of necessity, drop on the market. That constitutes a capital levy on the holders of that type of security. But, you say, unless you prevent the banker from getting too much credit out, the remedy is so drastic that he really has not got power to correct the situation; he must have some supplementary force, and you must prevent him from pyramiding bank deposits on bank deposits and inflating debts and debt claims.

By Mr. Geary:

Q. Mr. McGeer, do I judge from that last sentence of yours that you think there is now quite a great inflation of credit distinguished from currency?—A. Might I put up a chart upon that particular point, Mr. Geary? I do not know whether you can see that or not, but I can give it to you in a word: These are our gold reserves for 1914, 1920, 1929, and 1933. They increase slightly, but without any appreciable difference. You can see that your gold reserves from 1914 to 1934 took an average of one hundred million dollars. Your notes in circulation, that is, your Dominion legal tender notes rose, up to 1920, and they have steadily fallen, with slight variation from year to year, until 1934. Now, that is your money. Your cash in the banks, which consists of all the cash they have, foreign money, legal tender, and currency, climbed, up to 1920 and then fell away. Then your bank deposits rose from 1914 to 1920, and they continued to rise from 1923. They fell, from 1920 to 1923; that was the collapse of 1921. Then they started to climb, and up to the peak of the boom you had a further inflation of bank deposits, although gold and cash were declining. Then, in 1929, came your collapse, and naturally your bank deposits fell away considerably. You will be surprised to learn that the decline in Canadian bank deposits, was, in percentage, as great as the decline in bank deposits caused by bankruptcy in the United States. Now, you have in your national public debt your debts claim. From 1914 your national debt was $265,000,000, I think, in 1914, and in 1920 it was $1,500,000,000, and by 1929 it had climbed up to three thousand million; but your real debt that was accumulating in the post war period was your municipal, your provincial, and your private debt; that was the serious climb. Then your total of public debts started to climb again in 1929, and has gone up, and will continue to go up as your depression continues.

By the Chairman:

Q. You do not include in your national public debt the national railways?—A. Well, I think that is all in there, Mr. Chairman.

Q. I should not think so, and in that respect the chart is wrong?—A. $9,500,000,000.

Q. I am speaking of this chart here, number 3.—A. No, no.

By Mr. White (Mount Royal):

Q. The Dominion debt is about four billions including the railways?—A. Well, I have only put in what I call the national public debt, Mr. White, exclusive of the railways. As a matter of fact, if I included the railway debt I think

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my chart would be more in my favour than otherwise in connection with the point I am making. Then you come to your public and private debts, that is, your national, municipal and provincial. There is your mountain of debt in Canada. Gentlemen, if you ever think you can pay that mountain of debt with this system of gold and money without a national administration of public credit, you are more optimistic, I think than you have any reason to be.

Mr. IRVINE: You have a right to ask us, I think, how we are going to do it.

Hon. Mr. EULER: Mr. Chairman, I merely want to clear up one or two points. I do not know whether Mr. McGeer suggested in his condemnation—if I may use the word—of the present Bill 19 to establish the Bank of Canada, that he would establish for that a national bank which he proposes to establish by the tentative Bill which he has filed there.

By Hon. Mr. Euler:

Q. Am I correct in that?—A. Yes.

Q. And that bank would have the issuance of all currency, and of all credits, if I am to put it that way?—A. Yes.

Q. I think you also stated, that there was a danger that there might be inflation under that, and that you would correct that by the exercise of taxation?—A. Yes, sir.

Q. Would you say what factors would enter into the contemplation of the proposition which would lead those in control of taxation, if you like, to form an opinion as to when inflation takes place? Just at what point do you think inflation would take place, and at which point corrective taxation could be applied? Perhaps I might as well ask all of my question at once and perhaps you will answer then. In connection with the credit which has to be issued by this national bank, which I assume would be publicly owned, how would that credit get to the people, or the purchasing power, how would that get to the people? Would it get to the people in the same way as it is proposed in the Central Bank, and which we have now through the present chartered banks, or would this national bank that you propose deal directly with the public? Another question——A. Just a minute, Mr. Euler, you are putting a lot of questions.

Q. Well, answer those first.—A. You say, first, when would your board of directors working with your department of economic control and your department of taxation begin to put on the brakes?

Q. Exactly.—A. To prevent inflation—right from the beginning. Instead of flooding out excessive credits, it would try to get enough in circulation to pay your debt—you have enough debts—municipal, provincial and national now—to bring our standard down, your taxation burden could be relieved gradually without inflation causes and danger. The Right Hon. Mr. Borden brought to the attention of the Canadian people, I think at last year's annual meeting of Barclay's Bank, the fact that the cost of government in this Dominion is now in excess of the total income of the Canadian people, that is, the cost of municipal, provincial, and national government, and I think that he was quoting an investigating group of men from the Chamber of Commerce of Montreal. I am not just conversant with that, but I think he was quoting the figures of their investigation that now shows that your cost of government exceeds your income. Now, there is no necessity of using the power to issue credit to flood it out on a crazy basis.

Q. When did the flood begin?—A. I say that under this system you can break the depression in twenty-four hours. Now, people laugh at that, but they laugh because they do not understand how easy it is to finance a war. If war were declared to-morrow our people would go to work using national credit, and we would break any country, or we would build our defences to

prevent any country breaking in by putting our people to work, and we would not be short of medium of exchange to do it. Every man in this room knows just how we did it in 1914 and we were broke then, just as badly broke as we are to-day. I would place at the disposal of every city in Canada, every village in Canada, every county and rural organization in Canada, every provincial government, and every national department of government, the credit that would permit those established organizations to do the work that is now crying to be done. I would inaugurate an extensive program of public works by letting them bring their standards up to where they ought to be. And I would put enough credit in circulation throughout the Dominion of Canada to put enough people to work to start the wheels of industry so that all would go to work. And if you did that all across Canada you would probably be surprised at what a small amount, comparatively speaking, of national credit you would need to put in circulation to get your wheels going. In Canada you are not a developed country. Just look at this chart here.

By Mr. Irvine:

Q. Before you leave that point, Mr. McGeer, would you please explain how a mining corporation, or a manufacturing company, would obtain credit? Would they obtain it from the merchant bank of your description there, or would they obtain it from the provincial bank in the form of national credit, or how would it come to them, assuming for the moment that there were not enough real savings?—A. Well, they would go to the merchant banks.

The CHAIRMAN: That is a mere matter of mechanics, getting it across.

The WITNESS: You would not change the technique of what you do to-day. If you want to finance an enterprise to-day what do you do? You go to the merchant banker and he says, I am not prepared to put credit into that organization. You say, I will go to a bond company, and the bond company says they will not put credit into the organization, then what do you do? You go to the public and sell stock; you cannot change that system, but if the Canadian merchant banking system go to the government bank, that is, the national bank, and state, "We are prepared to create deposits by making loans to the newsprint industry, to the gold mining industry, or to other various lines of industrial activity," then they would discuss that matter with the headquarters banking organization, and the wisdom of creating deposits for financing undertakings of that kind would then be considered. Now I do not say, that as the result of that kind of consideration there would be an intelligence that would be final and complete and perfect? No, I do not. But I do say, that it would be better, and probably sounder and wiser, and more judicious than the judgment that is now controlling that type of investment. On your question, Mr. Euler, here is your situation: You are very much afraid of inflation, and quite rightly so, but let me point out to you, that you have this much wealth in Canada, thirty thousand million dollars, according to your Year Book estimates, and only $200,000,000 of money, and that is all the money you have issued. Why are you afraid of inflation of national currency when the banker has issued $2,000,000,000 of bank deposits against $3,000,000,000 of bank assets?

Hon. Mr. EULER: I am not afraid.

The WITNESS: Well, pardon me, I mean why are we frightened by people who talk against inflation when our little bit of money is only a portion of the amount that our actual creation of wealth justifies? I go further than that and I say this: That we have thirty thousand million dollars of wealth in Canada, but there is no reason why we could not have three hundred thousand million dollars. We are a new country; we have ten million people, and there is no reason why we should not have twenty-five million. I venture to say

that we can take care of over one hundred million people in Alberta and British Columbia alone, because we have got the resources and the territory to do it. I can run that line of thirty thousand million dollars of wealth up if I put the Canadian people to work to three hundred thousand million in twenty-five years, and under an intelligent system of public administration where economic security is established, in a self supporting country—and we are a self supporting country in Canada—we may not be self supporting in a very high standard of living from the point of view of certain luxuries, but we can live pretty well on Canadian products. I can run that line up and I can increase our population to twenty-five million people. I can bring enough Americans across, even putting a tariff immigration barrier on them, that I will not let anybody come into Canada unless he brings $5,000 of American cash, and I can get enough Americans to come over and give their American currency up to the national bank to liquidate Canada's debts in the United States. Yes, you put in a sound taxation system, a decent system of administration of justice, and you would have no difficulty in getting not only a million Americans but a million Britishers that are living in the United States to come back to Canada and live in the British Empire, and if you bring a million people back with $5,000, each that is, five thousand million dollars, more than enough to pay your American debt. Now, you asked me how I would get wages into the hands of the people. Just as easily. How did we put the purchasing power into the hands of the people during the war? We put them to work at $1.10 a day in the the army and we put them to work in factories at $5 a day, and we paid them interest on the investments they made in national bonds. Do you mean to tell me there is any difficulty in putting wages in the possession of the Canadian people to-day? Why, they are crying for wages, and the merchants are crying to have them possessed of wages so that they can buy. The whole basis of my scheme is the elimination of unemployment, by what? Creating those useful public works and extending those social services that give people decent and intelligent employment in every part of the Dominion.

Hon. Mr. Euler: I would like Mr. McGeer to understand that I am not criticizing his scheme at all, I am merely asking for information, and the thing that occurred to me is, that supposing ordinary banks through whom that credit in future is to be issued declined to issue that credit, I am wondering how it would be accomplished?

The Witness: I missed your question, Mr. Euler. I want to answer that.

By Hon. Mr. Euler:

Q. Well, it grew out of the other.—A. I do not think it came before. The national bank, and the provincial banks, finance all governmental expenditures; the merchant banks have nothing to do with that. Now, you say supposing the merchant banking system refuses, for some reason, right or wrong, to advance credits that were necessary, that is, they have deposits and hold them and will not put them out, do you mean to suggest what I would do with them if they did that on purpose as a retaliation against the national banking system

Q. Not necessarily for that reason.—A. I mean, if they did it for that reason, then I would apply the section of the Criminal Code that makes that treason, I would line the boys up. I do not want to deal with a question so important as that facetiously. I have every confidence in the merchant banking system to exercise their privileges under a proper system intelligently, and I venture to say, that in the administration of credit under this system, despite all we might say about the banks in condemnation of those that are responsible for this system, we have got very little complaint to offer to the officials of the Canadian Banking system for the want of or for lack of willingness to co-operate with Canadian business and industry, and Canadian government in working

through this depression. You can depend upon your merchant banker to act with reason and with intelligence, and with an undoubted degree of integrity in handling the deposits of other people.

Q. If I understood you correctly, it should be possible for the government, through government owned banks—whether the provincial banks or the national bank—to raise money, if you want to put it that way, by borrowing from the banks rather than by selling bonds upon which interest must be paid?—A. They do not borrow from the banks.

Q. From the national bank itself. That is the point, would it possible, under your system, so that the national government would not be put to the necessity of borrowing by way of issuing bonds upon which interest must be paid, but which they do now, and where would you draw the line?—A. I would say, that that is again a matter of intelligence. Men say to me, Oh, oh, that would not work because you would have the same thing happen that happened in Germany. Is that what you have got in mind? Well, let us bring out the ghost of German inflation. Mr. Jackson Dodds was out in Winnipeg, and he made a speech to the people out there, and he properly drew their attention to former attempts to manage national credit and the disasters that had come to them. He referred them to Continental money, and to the German inflation, but he did not say very much about Russian inflation. Now, those things are brought up to frighten people. As I pointed out this morning, governments of the past did not have the knowledge or the capacity for government that we have to-day, and German inflation came as a result of dire necessity. There was a situation in Germany like this: Germany had a French army in possession of the Rhur; Germany was called upon to pay international gold obligations that she could not meet; Germany had to resort to a device of strengthening her credit position. To do that, she resorted to a designed and deliberately planned scheme of inflation for the purpose of liquidating her internal debts. Germany put the printing press to work; she kept the gold standard; she printed mark notes repayable in gold; she deliberately encourage the rise of the price level, and she printed marks by the carload—not only in hundreds, thousands, and millions, but in trillion mark notes. Now, printing presses do not run themselves, and you cannot get a printing press to produce a trillion mark note unless somebody ordered a trillion mark note to be produced. Has any man the right to say, that a proposal of national administration of credits should be judged by the possible consequence of inflation when it is used to liquidate internal debts, by the process of printing German mark notes redeemable in gold, to the point where their redemption in gold becomes an absurdity? Supposing at the same time that Germany had resorted to that device they had adopted a price controlled system, they could not have got the results of inflation. Supposing they had abandoned gold, they could not have got that result. What did they do in Russia? They resorted to the same thing. Lenin, when he took charge of Russia, said, I have got to destroy the power of merchants and others, and the only way I can do it is by destroying their money, which he did by inflation until Russian money lost its value, but in 1931 when Lenin realized that currency was necessary, he decided that he had to resort to the capitalist instruments of money banking, and he re-established the money system, but it was a national money system, and to-day you do not hear a banker talking about the Russian currency system. Your budget for 1934 in Russia is forty-seven thousand three hundred million roubles. They built the largest canal system in the world between the Baltic and the——. And they double tracked the trans-Siberian railway, and they have spent more money both for their homes and for labour, and have built the greatest line of industrial machinery that has ever been assembled by any country. They have put in one of the most extensive educational and health systems in existence to-day, and at the same time they have built one of the

[Mr. G. G. McGeer]

greatest war organizations in the world, placing their aeronautical power second to that of France. Japan has done the same thing. Because you can drive an automobile over a cliff or take it down a street at a break-neck speed and destroy life and property, there is no good reason for concluding from that that you could not drive an automobile at all. Because you can do things with a foolish, and unsound and absurd administration of national credit, that is not a reason for going bankrupt for want of trying to administer your own credit wealth with intelligence. If there are public men available who say that we must act without intelligence in the administration of our public affairs, if that be true, then, of course, it is futile to talk about coming out of this depression, because if we are not intelligent enough to manage our public credits then we have no right to look forward to an era of peace and plenty.

Q. I was just wondering to what extent that could safely be carried?—A. It is a matter of human intelligence.

By Mr. Baker:

Q. In your four-point plan, or your four-wheel plan you have what you call a department of external trade and exchange. That is very important, it is really a quarter of your plan?—A. Oh, I think it is like an automobile. It is a four-wheel plan, but if one of them goes out of business the whole machine would stop.

Q. In conection with the working out of your plan, you started off with the premise that you are going to sell these goods to the other nations, but supposing you could not, supposing you had a surplus of wheat such as we have to-day, and supposing you had other things which you could not sell then what would happen that one-quarter of your plan, if you could not market these goods? Such things have occurred. If that wheel failed, the part which is dependent upon other nations, how would your plan work out?—A. Well, you are practically asking me the question, if I drop dead before I get back to my hotel how am I going to eat my supper to-night? I won't bother eating it.

Q. That is not an answer at all. I simply am asking for information. Will you kindly tell me how your plan would work if that wheel broke down?

The CHAIRMAN: Gentlemen, it is now six o'clock. We have had a very exhausting, and, may I say, a very exhaustive discussion to-day. I am bound to tell you that we cannot carry on this discussion any longer; we have too much else to do. This committee will adjourn till Thursday at ten o'clock when we will take up Bill 18.

The committee adjourned at 6 p.m. to resume on Thursday, 3rd May, at 10 a.m.

HOUSE OF COMMONS,

THURSDAY, May 3, 1934.

The Select Standing Committee on Banking and Commerce met at 10 o'clock a.m., Mr. R. B. Hanson in the Chair.

The CHAIRMAN: Gentlemen, will you come to order please. When we adjourned, on Tuesday evening, after a very full hearing of Mr. McGeer, I announced that we would go on with Bill 18 to-day. I understand that Mr. McGeer is back here to-day hoping to be heard. Of course, in the final analysis the matter is in the hands of the committee, but I just suggest to you, gentlemen, that we used Mr. McGeer very well indeed and gave him a very full and courteous hearing; that he was able to put across his message, or whatever it was, in the fullest possible manner. I am reminded by an editorial in one of the morning papers that our reference from the House of Commons and our instructions are to consider these Bills 18 and 19 and not to deal in monetary theory; I would like to remind you further that this committee has been sitting for weeks and we have not made very much progress. But, if it is the wish of the committee to hear Mr. McGeer—and the committee must take the responsibility in the final analysis—I am not opposed to hearing him or any witness. We have here to-day a representative of the United Farmers of the province of Quebec whom we are to hear very briefly. The matter is now entirely in the hands of the committee as to whether we shall recall Mr. McGeer for cross-examination or proceed with this Bill after hearing Mr. Reed.

Mr. IRVINE: Mr. Chairman, I think we all agree with you that we have certainly given Mr. McGeer a very fine hearing, and I do not think he would have any complaint, or could reasonably have any complaint, if we did not hear him any more. Personally, I would like to ask Mr. McGeer a few questions; I do not know whether anybody else desires to do so or not; but I would just like to recall him to answer questions for twenty minutes or half an hour.

The CHAIRMAN: Can you undertake that he will stop at twenty minutes or half an hour?

Mr. IRVINE: We could give him twenty minutes or half an hour.

The CHAIRMAN: The matter is in the hands of the committee.

Hon. Mr. RHODES: I may say that I subscribe to the view expressed by the chairman. We have given a whole day to the hearing of Mr. McGeer, who came here on his own initiative, and we gave him a good hearing. I think that we should make progress. It is not possible for this committee to revise the financial system of this country, even supposing Mr. McGeer is right and we are wrong. That is a matter for the House of Commons and Parliament. We have our instructions in this committee to deal with these two bills, and we have gone rather far afield, and I think we must draw the line somewhere.

Mr. IRVINE: I think there are some things on the record that either ought to be corrected or explained.

Hon. Mr. RHODES: So far as I am personally concerned, if Mr. Irvine can undertake to finish with Mr. McGeer in half an hour, I have no objection; but it is one thing to turn on a tap and another thing to turn it off.

Mr. MCGIBBON: Mr. Chairman, I move that the committee proceed to the consideration of the Bill.

Mr. McPhee: Mr. Chairman, I consider that one of the functions of this committee is to hear evidence, and when I heard the evidence of Mr. McGeer the other day I must frankly say I was very much impressed with it, and I think it is up to our banking friends who have been sitting on our left to break down that testimony, if they can, and, if they are not able to do it themselves, they should bring counsel learned in the law to do so. As Latimer said to Ridley in the days of old: "We shall this day light such a candle, by God's Grace in England as I trust shall never be put out." Mr. McGeer said something last Tuesday that will take some time to contravert, and I submit he should be subjected to further cross-examination.

The Chairman: What are the views of the committee? There is a motion before the chair.

Mr. Donnelly: We are here to deal with Bill 19 and that Bill deals with monetary conditions, and monetary conditions have taken a great upheaval these days. We know that our economists, and financial interests in England, said that it was necessary to stay with the gold standard and not many months afterwards England went off the gold standard. We heard in those days that inflation was some kind of a disease, and to-day we have inflation and all parties are agreed to it. Mr. McGeer came here the other day and he put forth a theory. I do not say whether I agree with him or not, but I do say that if Mr. McGeer can appear before us this morning for an hour, or half an hour, to answer questions and to give us an opportunity to ask questions that is all we want; limit him to a certain time and see that he answers questions.

Hon. Mr. Euler: I want to support what Dr. Donnelly said. We had Mr. McGeer here for five hours the other day—a long time for a witness to speak—but I think it was our fault, if there was any fault in it, because I think all the members of the committee, as well as others, were intensely interested in what Mr. McGeer had to say. Now, it does seem to me that what Mr. McGeer said was pretty much a waste of time, if he merely pronounced his theories and we are not given the privilege of exposing the fallacy of them, if you like, or of getting further information upon points with which we are not satisfied. It seems to me it is only fair to give the members of the committee an opportunity to question him a little further. If you like, limit the proceedings to an hour.

The Chairman: Mr. Euler, you have put a new angle on it from the standpoint of the committee. Mr. McGeer, would you be satisfied if the committee gave you thirty minutes for cross-examination?

Mr. McGeer: Mr. Chairman, I am simply a public man offering my services to Canada at this time. I am not concerned as to how much or how little time the committee gives me. I am here, and I am at the disposal of the committee to do with me as they will.

Mr. Vallance: Mr. Chairman, I would say that when the members are through with Mr. McGeer we pass a resolution saying that we are through with him. How can we tell whether twenty or thirty minutes will do? Mr. Irvine may want ten minutes and some of the other members may want ten or fifteen minutes. I think it is only right and proper that Mr. McGeer should be heard and that we should have an opportunity to examine him.

Hon. Mr. Rhodes: It is a matter for the committee to decide, but may I point this out, without any desire of unduly restricting Mr. McGeer's time, that there is already evidence before this committee—nearly 200 pages of Mr. McGeer's evidence—given before the Royal Commission on Banking in which he covered a great deal of the same ground in the same way that he did on Tuesday.

The Chairman: Practically all.

Hon. Mr. Rhodes: And he could have used his time to greater advantage had he dealt with new matter.

Mr. IRVINE: I think that is true, Mr. Chairman, but at the same time we were not present to ask Mr. McGeer questions when the Commission was sitting, and the other day when he was here we did not get a chance to ask him anything, and I think one or two of us would certainly like to question him.

Hon. Mr. CHAPLIN: This is a matter for the committee itself to decide, and not a matter concerning Mr. McGeer or the time he has taken. If the committee wants the privilege of examining him, the committee should have that privilege.

The CHAIRMAN: Dr. McGibbon, would you withdraw your motion.

Mr. McGIBBON: Yes, Mr. Chairman. I look upon this whole thing as nothing but propaganda—to listen to a speech here; it has nothing to do with the task that has been assigned to this committee.

Mr. McPHEE: I resent that statement. "All is infected that the infected spy, as all looks yellow to the jaundiced eye."

Mr. VALLANCE: Not only that, but this committee has to deal with Bill 19, and further examination is of moment to the committee.

The CHAIRMAN: I think we agree that we will have Mr. McGeer for cross-examination by those members of the committee who want to cross-examine him, but may I express the wish that the time for cross-examination be limited, and that we will get back to real business very, very shortly.

Hon. Mr. MORAND: Do not turn this committee into a study club.

The CHAIRMAN: This committee is not a study club. I do not think the members are right when they say that we are here to study monetary subjects.

Mr. G. G. McGEER, K.C., M.L.A., recalled.

By Mr. Irvine:

Q. Before I ask any questions, may I say that I can assure Mr. McGeer that I agree absolutely with his criticism of the banking system and with a great deal of what he said in his suggestions as to improvements in the banking system; but there are one or two points in his evidence upon which I would like to question him so that we may have more clearness and a better understanding, at least, on my own part.

I understood you Mr. McGeer, to say during your remarks—I have not got your evidence here—that orthodox economists accepted and always had accepted the quantity theory of money; did you say that?—A. Yes, and that Bill 19 is based on the quantity theory of money.

Q. Would you mind giving us names of a few of the orthodox economists who agree with that theory?—A. I would say the standard school of economy of Oxford or Cambridge—well at any rate of London University, Edinburgh, Yale and Harvard—I do not know of any university that does not base practically its whole teaching in monetary economy on the quantity theory.

Q. And orthodox economy, as far as the banks are concerned, is practically based on Adam Smith and I think I may say that the bankers here would agree with you in the view that you expressed on money; but, as a matter of fact, I do not think it is correct that orthodox economists accept the quantity theory of money nor that present banking is based on it?—A. I would disagree with you on that.

Q. I understood you, at another time, to say that money had nothing to do with prices?—A. I said that of necessity it did not have anything to do with prices.

Q. I understood you to say that prices were fixed arbitrarily?—A. I think you are probably off. I say that the quantity theory of money which says that prices rise and fall with the expansion and contraction of credit, all things being

equal, is unsound, because I say that as the volume of purchasing power increases the volume of consumption increases and the unit price falls unless manipulated upwards. And that has been the story of the fall in the price level since 1810. It fell from a high level to a low level of to-day while your volume of credit purchasing power has risen to its highest level in 1929, and to-day to a higher level than outside of that particular time.

Q. I am glad to have that admission expressed because that is what I think you meant, and because I think it is erroneous. It may interest you to know that the bankers here expressed precisely the same view. They say, if prices rise, production increases, and with that some of us disagree. I think you said, as a part of your contention, that the price for wheat was fixed during the war. Are you aware that the price of wheat was fixed to prevent it from going too high rather than to raise it to a certain standard?—A. No, I do not agree with that.

Q. I think you will find that is a fact. May I ask you, if prices are arbitrarily fixed, who fixes them when they go down?—A. Well, I would say that over-production and want of distribution of wages would have something to do with that.

Q. The want of distribution of wages would be due to the lack of purchasing power?—A. Yes.

Q. So that the lack of purchasing power has something to do with falling prices?—A. Certainly.

Q. Therefore your contention would not be true that the volume of money in circulation had anything to do with prices?—A. I did not say the volume of money in circulation, I said the volume of money in issue. They are different things. But my contention has been throughout, if you have followed me, that it does not matter how much money you have in issue, how much banknotes, or silver coins, or gold coins, or banking credit transferable by cheques you have, unless the circulation of it is distributed through the channel of wages it cannot affect the price level. If it fails to go out in wages, the people are unable to buy and naturally you will have a temporary fall in prices, and after a while, if your volume of consumption reduces to too low a level and your costs of production increase then the ultimate end of that will be a rise in prices. If you will persist in confusing circulation with volume of issue then, of course, we are talking about two different things.

Q. I am not confusing two different things; if there was confusion you confused it. I am pointing out that you said that volume had nothing to do with the prices?—A. The volume of money in issue.

Q. I think I recall that you said that velocity of money was one of the theories of the bankers that had no meaning and was a fallacy?—A. I never said any such thing as that.

Q. Is there such a thing as the velocity of money?—A. The velocity of circulation?

Q. Yes?—A. Of course there is.

Q. What did you have to say about that in your evidence?—A. I said that in the matter of velocity of turn-over, where people spend their own money they are acting independent of the banker, and that is not a thing that can control by purely monetary management. If I go out and buy real estate or stocks and turn over my purchasing power at prices which are unsound, I, as an individual owner of banking credit can, quite independent of the banker, create a rise in prices. The banker and monetary management has no control over it, and, as I pointed out to the committee, that could only be controlled by a department of economy empowered to fix and regulate prices.

Q. Then you stand for an arbitrary fixation of prices apart from the monetary medium?—A. I not only stand for it, but I say if you are going to have a normal activity in an age of plenty you must exercise that control I think I pointed out, that economic control must be used in trade and commerce

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for the same reasons that you now control the traffic in your streets. I do not say it should be done down to—the limit of an exact or discreet point, but I say you must at least prevent the speculative boom activity rising too high and the valleys of depression falling too low.

Q. That is all right. I am not asking you to argue it. I do not want to argue with your point of view. So you would have prices fixed arbitrarily instead of by manipulation or regulation by banks?—A. I refer you to section 210 of the Macmillan Committee Report on that point.

Q. Unfortunately, I have not got your evidence—I do not think it is out yet—but I think if you look at your evidence you will find that what you said about velocity of money is much more emphatic than what you say now, but I can speak only from memory, and I will let that point drop. I think I recall that you said that inflation was certainly a bad thing and something that we very well might fear?—A. I said that uncontrolled inflation was a dangerous thing, and that all men looking towards a planned system of economy might well concern themselves about the danger of it.

Q. What do you mean by inflation?—A. I mean inflation in the broadest sense—not inflation on the issue of money as against gold, but an excessive issue of the total volume of money that would be required to maintain a normal rise in the standard of living.

Q. You are speaking of the volume, not of the circulation?—A. Yes.

Q. Then, out of your own mouth, you say that inflation is a greater volume of money in circulation that ought to be; presumably, you mean a greater volume of money than would be warranted by the goods on the market to be purchased by it?—A. Well, capacity to consume and capacity to produce. What I fear is the depression of glut and over-production.

Q. Then, you would say that volume of money does have something to do with prices?—A. No, I do not see—

Q. I did not confuse it this time. That is your word. All I want to get at is the point of view. Now, just a question or two more. I am quite sure you will agree with me when I say frankly to you that I want to get the reforms that you are talking about just as badly as you do. I think that you are, sir, an adherent of the Liberal party. May I ask if you expect to get these reforms you were talking about yesterday through and by the Liberal party?—A. Well, as far as I am concerned, I think I made that clear. I said that in British Columbia we have succeeded in taking this issue out of party politics. As far as Liberals are concerned, I think they are almost in as much need of enlightenment as the members of the C.C.F. and that is very, very much. As far as my friends in the other party are concerned I have no hope of ever reforming them at all.

Q. As long as you have the idea that you have no hope of your party doing it, then, of course, you will discover the party that is advocating these things?—A. We have a great deal to do converting Liberals to liberalism and Christians to christianity in this world.

Q. I think that is quite true. I agree with you on both counts.

Q. Did you make a new proposal yesterday, Mr. McGeer? In your proposal, is there anything fundamentally different from what is now in practice in finance in Canada; I mean in the matter of policy, not in administration; if so, what is that point of difference?—A. Well, what I did say was this: That instead of issuing national credit, provincial credit, and municipal credit, in the form of a frozen non-monetary interest-bearing bond, I propose to finance government by the direct issue of national currency and monetized credit. To-day you finance government by issuing bonds that are not spendable until you convert them into bank currency or bank credit transferrable by cheque. You to-day borrow, from a subsidiary organization of the government, that is, through the banking system that is created by the laws of parliament, what you call money, and whether

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you borrow it by an overdraft to a broker, or by the use of a credit standing to some depositor who may go through the form of purchasing a bond, what the government is actually paying interest for are bookkeeping entries which convert the credit value of the government bond into a monetized credit that can be transferred in any amount by the use of a cheque. You do not borrow money, and have not borrowed money for probably thirty or forty years to finance government. My proposition to you is based upon war time experience. A government can escape the obligation to pay interest and to collect taxes from its people by establishing a national banking system.

I would change, under my system, the levy of taxes for the purpose of maintaining government to that of maintaining a proper and correct volume of credit and purchasing power in national currency, purchasing power in circulation. If you have got the two points that I make, the correlation of the power of the government to issue with the power of the government to withdraw from circulaion the purchasing power in the channels of the social system, then you will see that the proposal is one to eliminate taxes in the sense that we now know. That is the most sweeping and fundamental change that has ever been proposed in our social system, because it makes the power of the government in the matter of the creation of governmental spending power unlimited. In addition to that, it places the government in a position whereby it can maintain the circulation of purchasing power. It does more than that: It places the government in the position where it can eliminate confiscatory taxation. It does more than that: It places the government in charge of the social system and the government is superior to the banking system. Now, to-day what you do is this: You are sitting in this committee room proposing to pass a Bank Act which will establish a control over the nation's credit in a subsidiary corporation that actually makes that corporation superior to the government.

Q. I get your point there Mr. McGeer; I am quite in agreement with you there, that the bank should be government controlled in all instances, but the mere ownership by the government of a banking institution, or any institution whatsoever, will not in itself effect the cure we desire, that is my point. I want the difference in policy, not a matter of administration, because all that we are doing if we go from a private corporation to the public, we have only altered the method of administration, we have not altered the policy, and what I want to get at is the essential difference in policy between what you propose and what is now being done.—A. Well, you have got that.

Q. If that is your answer that is fine. Then I understand that in the technique that you propose—I may be wrong in my understanding of this—first, that you would not continue the checking system so far as the government issuance of credit or monetizing of credit is concerned, but you would, on the contrary, issue or monetize credit in the form of currency, is that right?—A. No, I never made any such suggestion. I said that I would issue copper coins and currency in exactly the same form that they are issued to-day through the national Mint, that the national bank would set up exactly the same technique of creating credits and issuing cheques that the private banking system adopts to-day, and that that checking facility would be available to the government and to any individual that wanted to use the national bank.

Mr. Irvine: That is a point on which I probably misunderstood you.

The Chairman: Does anybody else want to ask Mr. McGeer any further question?

The Witness: Might I just explain one point, Mr. Chairman?

By Mr. Hackett:

Q. I have a question or two that I would like to ask, Mr. McGeer, and I ask them with some trepidition because you have been described as the "redoubtable" Mr. McGeer. I suppose you have been maligned by the newspapers.

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before?—A. You know, Mr. Hackett, we are not always responsible for the view of either our friends or our enemies.

Q. No, or of the newspapers?—A. No.

Q. I wanted to ask you, Mr. McGeer, if the theory which you have propounded—and unfortunately I was not here on Tuesday to hear you—is your own?—A. I would say no.

Q. Is it a theory that has ever been put into practice or application anywhere, to your knowledge?—A. Yes. Delisle Brock put the thing into practice in Guernsey Island, in 1818. I gave the reference the other day; I have not got my notes with me, but I will let you have that book; it is in the library here. "An Experiment in Communal Currency" published by J. Theodore Harris. In Guernsey Island they created a bank of their own; they issued their own currency very carefully secured, in the first instance, for redemption by a levy of excise duties. They built the Guernsey Island market place; then they built a college; they rebuilt the streets; they built the quays, and they developed—as he describes it—an island which was in a deplorable condition of stagnation and want into a veritable paradise of happiness. There was one bank there at that time. Then another bank came in, and the banks objected to the Guernsey Island states issuing money because they claimed it was a vested right and the privilege of the banking community. The matter was argued in the council chamber. The bankers were themselves members of the chamber, and eventually the bankers made a bargain that the government would go out of the business of issuing its own currency and financing its own activities, and leave that to the banks, but that the banks would pay a substantial portion of the cost of the government of Guernsey Island for the privilege of carrying on the monopoly of issuing currency as the Bank of England had done. That experience in Guernsey Island—while it is small—between 1818 and 1837, I think, gives you a pretty complete picture of an operation of which a government decides to finance and to eliminate taxes as a basis of finding the means of seeing a government through. In addition to that, may I say that in the time of the continental wars when continental money was used, at the time of paper money in France, at the time of the use of assignats; at the time of the use of greenback currency, in everyone of those instances—

Q. And I suppose you go on and say in Germany?—A. I dealt with Germany before. You would not have asked that question if you had been here, because that is pure nonense. You would not have fallen into that trap if you had been here before.

Q. I am so grateful?—A. What I am pointing out is this, that in every one of those instances the national power, or the power of government to issue purchasing power has been resorted to. I went over before you were here the whole question of the difference between our power—

Q. Do not let me take you further afield. What I wanted to ask you was, if your theory, or any part of it, is in application in Japan?—A. Well, I would say that they were using the government's power to issue currency, very definitely, yes.

Q. And your system would eliminate the banks, would it not?—A. I said no. I would put the merchant banker in charge of the business of merchant banking, but I would not let him issue credit as a substitute for money; I would not socialize your banks or take away your right to carry on a merchant banking business, if you wanted to.

Q. Is your system identical with that of Major Douglas?—A. I have read Major Douglas's books, and some of his plans, but to be perfectly frank with you, I cannot myself, as a politician, just see how I could put Major Douglas' theory into a statute. Mind you, I do not want it to be taken from that that I conclude that it cannot be done, because I have learned a long time ago that merely because I do not see a thing is not proof that it is not there.

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Q. Will you go this far with me—and I will preface the question by telling you that I cannot understand Major Douglas' theory—will you say that you do not understand it in its entirety?—A. I do understand it, but I say I see difficulty in putting it into effect without establishing a complete socialization of almost everything.

Mr. HACKETT: That is all, thank you.

By Mr. Jacobs:

Q. Did the scheme which was put into effect in the Island of Guernsey ever extend to the Island of Jersey?—A. I am not sure about that, Mr. Jacobs, but I am rather inclined to think that it did, but just to what extent I do not know. It is a matter of record. I wanted to get the story of Guernsey and I hunted all over to get that book of J. Theodore Harris, and finally found it in the Library here. That little book is here and it is well worth-while reading.

Q. What is the population of Guernsey Island, or what was it at that time? —A. Oh, I think it would only be a few thousand, but remember this, the issuing of money in a community of a thousand is, in principle, exactly the same thing as the use of money as a medium of exchange in a community of five million or one hundred million.

Q. It would be more in the nature of a municipal regulation when applied to small Islands or other communities?—A. You see, they have their own parliament, they are not governed by England; they elect their own representatives just as we do in Canada; they have their cities, and agricultural industry, and their established industries, all that.

Q. And national debt?—A. Probably. I mean, they have everything we have, and while it is small you can, see the whole picture of the operation. The difficulty in modern economy, Mr. Jacobs, is the fact that our transactions move in such great numbers and with such speed that we only get a blurred picture of the whole activity of the social system. We cannot see the detail of its operations.

By Mr. Hackett:

Q. When did they abandon their scheme in the Guernsey Island?—A. 1837.

The CHAIRMAN: Gentlemen, are we through with Mr. McGeer?

By Hon. Mr. Euler:

Q. If that scheme worked out well, as you say, up to 1837 and was then discontinued, why has the government of that Island not restored the system?—A. As I say, they gave authority to the banks to carry on if they would pay a proportion of the cost, a substantial portion of the cost of government, and that carried on, but you can see quite clearly that the banks there corrupted the state's parliament and dominated it—

The CHAIRMAN: Oh, well—

The WITNESS: The Chairman says, "Oh, well." I am simply telling you what is in the book.

The CHAIRMAN: Leave the Chairman out of it. Are there any questions you wish to ask Mr. McGeer?

The WITNESS: I want to make one explanation, if I may, and it will only take ten minutes.

The CHAIRMAN: What about?

Hon. Mr. MORAND: Mr. Chairman, it is very interesting to listen to all this, and I am probably as unorthodox as any other man in this House in respect to the present day banking system, but this is not a study club, and if anyone in the House desires to have this studied as a system or as a theory then it is quite

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competent for that person to submit a resolution to that effect, but I do not think we should continue this discussion at this time, we should get on about our business, and I would move, Mr. Chairman, that we call the next witness.

Mr. VALLANCE: Before you do that, Mr. Chairman, I would point out with all deference, that we are dealing with the Bank Act, and Mr. McGeer in no uncertain way on Tuesday dealt with certain sections of the Bank of Canada Act and if what he said is not true, someone should point it out, but I think it is very germane to the whole subject of discussion. I would go further and suggest the bankers should cross-examine Mr. McGeer or bring on learned counsel to do so, otherwise they must accept what he said.

Mr. HACKETT: If Mr. McGeer says that he will finish in ten minutes do you not think, Mr. Chairman, that we would save time if he go on now?

The CHAIRMAN: I have no guarantee that that will happen, I do not know when he will finish.

The WITNESS: When I give you my word that I will finish in ten minutes that, surely, ought to be enough, Mr. Chairman.

The CHAIRMAN: Then go ahead.

The WITNESS: What I wanted to bring to the attention of the committee is this—and with all due deference to the committee, all public men should be in study groups to-day, and there is no place where monetary problems should be more intensively studied than in such a committee as this where men are attempting to bring into being the terms of the legislation that is going to rule the monetary destiny of Canada for the next ten years. I know well that men are quite competent to form their own ideas, and when they do form ideas they do not want the ideas of other men, but I want to give this committee one fundamental principle on which this Act was based and which, if it was understood and appreciated, would probably affect the whole trend of the future. That is, the theory that governments must redeem all governmental expenditures by taxing the people to finance the cost of government. That theory is unsound and has no foundation in fact. That is the thing that I want to get to your committee. Let me define it clearly: The theory that a government must redeem its expenditure on governmental service by taxation is unsound and has no foundation in fact.

Why has that theory fastened itself into our political, and social, and credit and taxation economy? It has come simply because we formerly financed governments by the issue of promises to pay which were ultimately "settleable" in gold, and to pay in gold the government had to buy gold in the open market, because no government owned and operated a gold mine. Governments issue a silver coin, or a gold coin or a copper coin with a mere declaration that it is so many cents, no promise to pay and no promise to redeem. But you issue your paper money in terms of "the Dominion government on demand will pay one dollar." Now, if that money were issued, that is, your legal tender paper currency were issued in the form of "the Dominion government, this is one dollar or $50,000, and no promise to redeem in gold," then national currency in the form of paper legal tender money would circulate indefinitely in the same way that silver coins circulate. Once the British parliament passed the Act of 1925 declaring the pound sterling not convertible into gold and the British people used that pound sterling as successfully as they had used a pound sterling convertible into gold, the convertibility of paper currency and credit into gold is a fallacy established. Now, your government has thirty thousand million dollars worth of real assets, and the bankers tell you that the Government cannot issue more than two hundred million dollars in money without danger of inflation yet they the banks are issuing two thousands of millions of dollars in the form of promises to pay money to their depositors against three thousand million dollars of bank investments and assets. Now, gentlemen, just take a

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look at those figures, thirty thousand million dollars of assets in the Dominion of Canada, two hundred million dollars of national currency, three thousand million dollars of bank assets, and two thousand million dollars of bank deposits which are obligations to pay in money. The banker knows that he will never have to redeem the credit to his depositors because people do not want either gold or money; they want a deposit in the bank that they can write a cheque on.

Now gentlemen, that theory of redemption is a mistake. It is not only unsound in theory but in principle, and it must end in disaster. If you borrow at interest to maintain governmental expenses and assume the greater responsibilities that government to-day has to assume, then you are going to find that you have got to borrow and redeem much more than the taxpayer can pay. When you get to the point in Canada where you are to-day that is levying for the cost of government more than the income of your people, which you are now doing, then you must recognize that there must be something that is wrong with that theory of redemption. It is a theory that must end in disaster because the government in the long run must withdraw from circulation more than is put in.

What I say is this: and I know that I have no hope of getting men in five hours, or ten hours, or twenty-five hours to accept the conclusions that it took me some four or five years of intensive study to develop; when I come before you with a proposition of this kind I do not expect you to accept it, but I do ask you to think that theory of redemption through, because there you will find the fundamental fallacy that is ruining democracy and putting governments in a position of disrepute in public minds. Yes, and public men are sitting here in control of government yet in the press and in the public mind has grown up the thought that public men are not honest enough, and are not capable enough to administer the credit of this Dominion, therefore, they must create a private profit making monopoly and delegate to that monopoly the administration of the nation's credit. From a public man's point of view the situation is absurd. It has ended in disaster, as it was bound to. If the elected representatives of the people are less capable and less honest, and are not themselves able to take charge of the credit as well as the moral destiny of the nation, then there is little hope for humanity in the twentieth century. Democracy must rule not only the social system but the credit system as well. When governments take charge of the administration of credit then governments can give to humanity some little measure of truly christian democracy. But if you continue to try to build your social structure on a foundation of usury, on a foundation that means that you have got to redeem till you exhaust the entire wealth of the tax payer, then you are bound to ruin the progress of this civilization. Your budgets of to-day, not only in the Dominion but in municipalities and provinces, and in nations, are spelling the death knell of this civilization that has repudiated the divine statutes and tried to build a christian civilization on a foundation of usury which is a violation of the laws of God.

Mr. Chairman, I want to thank you for the opportunity that I have had. May I say, that I regret that there should be any question at any time of a Canadian who is willing to give his time and effort to a study of this problem ever being heard willingly and at length by a Canadian committee called upon to deal with so important a subject as the creation of the Bank of Canada.

Mr. SPENCER: Mr. Chairman, in spite of the fact that Mr. McGeer was not asked to address this committee until he arrived in Ottawa he has given us—I think most of you will agree—a lot of very valuable information since he has been here. I would, therefore, move that we authorize his expenses to be paid.

The CHAIRMAN: Gentlemen, you have heard the motion, what is the pleasure of the committee?

Carried.

Witness discharged.

James B. Reed, called.

By the Chairman:

Q. What is your address, Mr. Reed?—A. North Hatley, Quebec.

Q. And your occupation?—A. Farmer.

Mr. Irvine: On what is Mr. Reed giving evidence?

The Chairman: The Bank Act, Bill 18.

By the Chairman:

Q. Mr. Reed, have you any statement to make to the committee?—A. Gentlemen, I may say, after having listened to such an able speaker as we have just heard, it puts a common dirt farmer in an awkward position to endeavour to talk to men of your calibre. There is one thing about it, however, I will take up only a few minutes of your time, so that perhaps you will be able to stand it.

The Chairman: You need make no apology, Mr. Reed.

The Witness: After reading some of the speeches made by representatives of our leading banks, before this body, our Quebec Branch of the United Farmers of Canada will appreciate taking a few minutes of your time, which we know is valuable, to explain our side of this question, which is important, as it seriously affects the prosperity of our country.

We notice how smooth, kind and cheerful their yarns seem to run, but you have got to deal with them for the past four years in order to get their right number.

They have led the farmers and small dealers around by the nose about long enough, and now have the cheek to tell you their customers come to them pleading for them to "Hold their hands," during this unheard of time of depression. Let me tell you now, in most cases, all the comfort the common people get from these Lords of Creation (as they judge themselves), is to shut up, and pay up. This many have done, but occasionally a farmer pays up, and then speaks up, as he did not dare to before.

We begin to feel encouraged when our representatives call for a wide banking probe and also are in favour of a Central Bank in Canada.

I have done business with the banks and with farmers continuously for nearly forty years, and you can rest assured I would not be here to-day if all was well in dealing with the banks, for so long a time.

We are not getting the same treatment from some banks that we used to get from the old Eastern Townships Bank. Far from it.

We cordially invite one or more of the committee to come down to our section of country and get some first hand information from hundreds of reliable farmers and dealers who have always paid one hundred cents on the dollar. These men are worthy of a little encouragement from our banks, or some other financial institution, in order to put cash into circulation for the benefit of all classes, instead of hoarding the small deposits up, or carrying them away and investing them in large sums in places that have proven, at times, to be not quite so safe as if the money had been loaned to farmers and dealers.

We can show you how differently banks have been treating many of their customers in the past three years as compared with former years.

We cannot believe they are sincere in making the statement that "they prefer to make small loans rather than invest in large deals."

If they really want small loans who is to blame for their not making them? In most cases the same farmers are on the same farms they were on four years ago.

As a general thing farmers are not moving planets but are fixed stars.

The trouble lies in most cases with the branch managers, who get their instructions from head office, from men lacking practical experience and good judgment in handling farmers' accounts in country places.

[Mr. James B. Reed]

We need more men in these positions of the type of S. J. Hungerford, who know the worth of a dollar by having earned some, when young, by the sweat of the brow.

It does not cost large sums to maintain order among the farmers, and fewer of them are leaning on charity, according to their numbers, than any other class you can mention. Compare them with labour, city dwellers, or even our university students. You will find in most cases they are too proud to beg, and if driven off the farm by the banks, or high taxation, they grab the old bucksaw, and saw wood for their neighbour, to pay for the bread and milk their families are living on.

This committee will find out in time, that prosperity must start first back on the land, and it is hoped that this House will soon realize that any assistance rendered the worthy farmers, to secure a little cash, on reasonable terms of payment, or any help through a marketing board, to steady and improve their markets, would be greatly appreciated, and further, would start the ball rolling and help all other classes to their feet.

Are you sure the banks are not taking too much credit to themselves for standing up, when they have been backed by our governments, and the taxpayers are suffering for the heavy burdens imposed upon them in saving some of our leading banks from ruin?

It is our opinion, when the probe is over, that this vast crowd of directors they have been telling you about, will narrow down to a few multimillionaires, who have almost full control of the finances in this banking business, and are directly responsible for a large portion of the depression this country has been suffering from in the past few years.

We hope and pray that before you are through with them (these banking magnates), you feed them their just portion of the same medicine they have been spooning out to their customers in the past four years, also warn them as to their steps in the future.

Very few would be sorry to see them in the position where they would be glad to have someone " hold their hands for a while."

We are not hard hearted enough to want to see them ground into the dust, but would suggest, that a guiding finger be placed upon them in order to keep them in their proper place, and in this way help to bring back prosperity, comfort and happiness once more throughout the land.

We have a tender spot in our hearts for the Royal Banking Commission, and we believe their ideas and intentions were good, and we now have great faith in results that will be attained by this committee, when we know that the best men from both sides of the House were chosen to settle this most important question, which directly affects all classes of our people.

Farmers, as you know, have neglected their own business in the past by not having more members in this House to represent them, but however we hope it will work out all right as most of the members on all sides are willing to help them with any reasonable proposition they might bring forward.

After you have made a careful study of this banking question from all angles, we sincerely believe and hope you will realize that something must be done quick to relieve the situation, and we are willing to leave it in your hands for a decision.

The CHAIRMAN: Gentleman, have you any questions to ask Mr. Reed? Have you any solution yourself to offer, Mr. Reed? We are all struggling with this problem, and we would be very glad if you would suggest what you have in mind.

The WITNESS: Well, Mr. Chairman, I might say this, in regard to the experience we have had in dealing with the banks in years gone by. We had not very much fault to find up to within three or four years back. They perhaps loaned to farmers whom they thought were worthy, and we got along

[Mr. James B. Reed]

pretty nicely; but for the last three or four years I can assure you that they have been stepping on the common people a little too hard. Further than that, I did not come up here to tell about somebody else's business, but let me tell you a little about my own. They used to be willing to loan me $6,000 to $8,000 to carry on my little business; but they have shut down on me until they have got me so now that a few days ago they owed me a little instead of my owing them any at all. That puts me in a pretty difficult position, and it forces me to crowd my good customers more than necessary. That is what they did. Further than that, it injures the farmers who are worthy; it holds up the business of the country. It is lack of circulation of money that is causing the depression to my mind. It might not be altogether that that is causing all this depression, but that is a strong factor. I know in my own business that is what I find.

The CHAIRMAN: You think they ought to loosen up a little?

The WITNESS: I do. I think they ought to loosen up a whole lot.

The CHAIRMAN: Perhaps they will, after this publicity.

The WITNESS: After they begin to see the whole situation, and they have got a little of the medicine that they have been handing out, it might help.

Mr. MACMILLAN (*Saskatoon*): Are there any other outside witnesses on this aspect of the situation?

The CHAIRMAN: Well, there is a gentleman in this hall to-day who has travelled, he says, from Vancouver. He represents what is known as the Free Economy League of Canada. I have arranged for an interview with him at two o'clock this afternoon to ascertain just what his mission is, but I am not prepared to recommend him to the committee as yet. I think we had better proceed with the Bank Act.

Mr. MACMILLAN: I think Mr. Reed's expenses should also be paid.

Mr. DONNELLY: I should like to ask one or two questions.

By Mr. Donnelly:

Q. I understood you to say, Mr. Reed, that your credit with the bank a few years ago was from $6,000 to $8,000?—A. Yes.

Q. Are you able to get a line of credit up to that amount up to the present time?—A. No, sir.

Q. Do you find the same thing true with regard to all the farmers in the district?—A. Well, nearly all farmers are in that position. I might say further, that they are good and worthy farmers; they have their farms practically paid for, and they are in this position, in many cases they can hardly get a dollar's assistance from the bank where a few years ago they could get $100, $150, or $200.

By Mr. Stanley:

Q. What is your business?—A. Flour and feed business. I have a farm as well. Perhaps I am tangled up with too much business, and that is why the banks won't trust me.

By Mr. Donnelly:

Q. What is the reason the banks ceased extending you that line of credit? —A. Well, I will tell you what it looks like to me. They had some wild cat scheme in their heads; they wanted to buy up some stock and make 50 per cent on their money instead of loaning it to farmers in small amounts and getting 7 per cent. Possibly I might be mistaken.

The CHAIRMAN: Have you any basis for that statement?

By Mr. Donnelly:

Q. What reason did they give you?—A. I will tell you what I did. I do not want to take up as much time as the other speaker has done, so I shall make my remarks short.

Q. You say you could get a line of credit to the extent of $6,000 to $8,000, and you have practically the same assets now as you had then. What reason did they give to you for not wanting to extend to you a line of credit to the extent of $6,000 to $8,000?—A. I will tell you this. Here is a statement. That shows how it has been standing. I cannot understand it; you will have to ask them. My business is the same; I am dealing with the same people, and we have not ventured out, you can rest assured, in any new scheme during those hard times. We are not making a lot of money out of our business, but we are breaking even.

Q. You have the same security that you had?—A. The same thing, exactly.

Q. But you cannot get that same line of credit?—A. To tell you the truth, not one-half as much.

Q. Is the rate of interest just as high as it was?—A. The rate of interest, I understand, has been reduced a little, to about $6\frac{1}{2}$ per cent. They have taken off a whole half of one per cent; but I told the Macmillan commission in Montreal regarding the interest business, and you do not want me to repeat anything.

Mr. FRASER (*Cariboo*): Has your business been as profitable during the last few years?

The CHAIRMAN: He said they had broken even.

Mr. DODDS (General Manager, Bank of Montreal): May I ask Mr. Reed one or two questions. He just told us that he had no credit from his bank.

The WITNESS: Yes. I did not say that I did not have any credit. I beg your pardon.

Mr. IRVINE: I raise a point of order. I do not think we should allow the banks—

Mr. DODDS: I do not wish to ask any questions, if the committee does not wish me to.

The CHAIRMAN: I think the committee ought to allow Mr. Dodds to ask questions.

The WITNESS: I will tell you one thing. For my part, as far as I can, I am willing to answer questions of the bankers or anybody else. The bank that I am dealing with is the Bank of Montreal. Let me tell their general manager right there, that—

Mr. DODDS: I do not wish to listen to a speech by Mr. Reed; but if I am not going to be allowed to ask Mr. Reed any questions, I do not want him to address me. I am quite prepared to answer any questions Mr. Reed puts to me, if he answers the questions I put to him, and then you can make up your minds which side of the case you wish to accept.

Mr. SPENCER: I think it should be left to you, Mr. Chairman, as to whether or not you should permit this cross-examination.

The CHAIRMAN: Of course, the bank has been attacked very severely.

Mr. VALLANCE: The bank has been attacked for the last three or four days, but they did not jump up then, in all deference to Mr. Dodds.

Mr. DODDS: I wish to say in answer to that that this is the first time anyone has made a direct attack upon one bank, for not having given a credit. Now, I am willing to prove there is a credit, that Mr. Reed already owes the bank money, and the evidence he gave on a previous occasion was not correct. If you do not want to listen to it, all right.

Mr. Irvine: Just one minute. I took objection, and I assure you, sir, it was not to shut off Mr. Dodds. I would be very glad to recall Mr. Dodds and have him give any evidence that he wishes to give. My objection was that it was hardly fair to allow one witness to cross-examine another witness; but if it is the wish of the committee, I am content.

The Chairman: That practice is not a good practice, I admit. Is it the wish of the committee that Mr. Dodds be allowed to ask questions? (Agreed).

By Mr. Dodds:

Q. First of all, Mr. Chairman, to continue the particular matter which was submitted by Mr. Reed. I understood him to say that he had no line of credit from his bank. My understanding is he has a credit, and that on the 30th of April he had an overdraft of $577 and $4,108 discounted by way of trade paper. Is that right?—A. On what date?

Q. The 30th of April, three days ago.—A. You said I did. Maybe you are correct.

Q. You had an overdraft of $577 and trade paper discounted to the amount of $4,108. Either you did or you did not; you say you did not?—A. Well, you tell your story, and I will answer.

The Chairman: That is a fair question. Have you an overdraft, and have you that line of credit to-day?

The Witness: Well now, here you are. I think you will find if you look back—

Mr. Dodds: I do not want to look back.

The Chairman: That is a fair and straight question.

The Witness: In regard to that, two or three days before that I had a credit balance.

By Mr. Dodds:

Q. Did you have trade paper under discount?—A. Yes, trade paper; but that is farmers' paper who were able to pay their bills, or I would not be taking them. They must have the same credit.

The Chairman: Your answer is then in the affirmative?

The Witness: But I want to explain to you here why, as I said before, I would like to have Mr. Dodds tell what I was getting, according to his own statement for a few years ago, and what he is allowing me now. Further than that, he will find this, two or three days before I had an overdraft, I had a credit balance. About three days before that, we had three or four cars of seed grain.

The Chairman: They did give you credit?—A. Yes, that is right.

By Mr. Dodds:

Q. I should like to ask the witness one other question. Before the Royal Commission on Banking, 6th September, 1933, you, Mr. Reed, said that you had a flour and feed business, and your own personal credit had been reduced from $8,000 to less than $800. I submit to you sir, that on the day you made that statement, you had a credit at the bank of $1,500 and trade paper discounted to the amount of $7,000, and on the day you gave your testimony that it was less than $800, you had an own name advance of $790 plus an overdraft of $399, which is a total of $1,189 and had trade paper under discount to the extent of $4,003, and that your statement must have been misleading to the Royal Commission on Banking?—A. Now gentlemen, in regard to this, as I notified you a short time ago, I am willing, if you will send any member of this committee down there to look into the question, to show him our bank books, and

I have most of our statements to show, and if Mr. Dodds will tell us the reason why he has cut me down so much in the last few years on my credit line, I shall be content. Further than that, he mentions that I have a line of credit of $7,000 on customers' paper. How is it that I can hardly get $3,500, it may be $4,200, I am not going to dispute the amount? I am using all the paper I can use in his bank and still he gives me that big line of credit, but he will not take my customers' paper. How do you credit these things? Further, he will find, since he has mentioned that I owe him $800, that I have had a credit balance for a considerable time right in his bank, instead of owing them anything. Occasionally, I will go over a few days. Another thing, they have opened their hearts; I am willing to admit this: They have opened their hearts enough to allow me a credit line of $2,000 to run my flour and feed business. I should like to know the reason why he cuts me down so much on my credit.

By Mr. Duff:

Q. Is that $2,000 in addition to discounting companys' paper?—A. Yes, direct line.

Q. How much customers' paper can you discount on your credit?—A. As I tell you, they pretend to give me a credit line of $2,000; but they will not take the paper. They are watching us pretty close in regard to my customers' paper; no matter whether I endorse them or not, it does not seem to count much. They have actually turned back good customers' paper that they would not take at all, paper that was paid in full in thirty days. That is why I say their management is poor.

The CHAIRMAN: Gentlemen, I do not think discussion ought to go any further. If there are differences between Mr. Reed and his own bankers, I think they ought to be settled privately.

Mr. SPENCER: May I ask one question. I should like to ask Mr. Reed if he can give us his total assets and liabilities.

The CHAIRMAN: Do you think we ought go into that phase of the matter?

Mr. SPENCER: We have had a statement—

The CHAIRMAN: We have nothing to adjudicate here between Mr. Reed and his bankers. No matter what he may feel, I do not think we ought to go into his private business with the bank, and the bankers' dealings with him. I think Mr. Reed will admit some of the statements he has made here are not in conformity with the facts.

The WITNESS: I do not know. Did I tell you I could not get any credit at all?

The CHAIRMAN: We are not to go into a man's private business.

The WITNESS: If I made the statement that I had no credit at all with him, I meant to say, that some of my customers have not been able to get any credit at all.

Mr. HOWARD: May I just attempt to straighten out a few of Mr. Reed's difficulties in this way. It is not Mr. Reed's personal business that interests this committee, as you say, and rightly so, but Mr. Reed happens to be in the county of Stanstead, in the flour and feed business, and therefore he is a supplier of feed to the farming community for about ten miles round, the whole farming section in the Eastern Townships. Now, I should like to ask Mr. Reed two or three questions in regard to that, if he will answer exactly the questions.

By Mr. Howard:

Q. Mr. Reed, when you get credit from the bank, what do you do with it?—A. My whole personal credit I use to pay for a car of grain or something on the track.

[Mr. James B. Reed]

Q. What do you do with your customers' paper, then? The farmer comes in and buys his weekly supplies or fortnightly supplies, and he does not have money to pay until he sells some of his products; is that how credit is given to him?—A. Well, there is his note; it is given to the bank in a good many instances.

By Mr. MacMillan (Saskatoon):

Q. You take his note?—A. I occasionally take his note. Of course I take his note if I can discount it at the Bank.

By Mr. Howard:

Q. You re-discount his paper at the bank?—A. Yes, that is all.

Q. In other words, the service you get is handed on to that section of the community?—A. Yes.

Q. I am not quoting figures, because I do not know what the figures are; but under ordinary conditions, we will say, you had a loan of $4,000. Do you hand the $4,000 credit to the community?

The CHAIRMAN: He gave twice that amount.

The WITNESS: Yes, that is about the size of it.

By Mr. Howard:

Q. When your credit is restricted, does it restrict the credit of the farmer buying from you?—A. If I can possibly carry on, I give them credit, regardless of the bank.

Q. Did you lose, during the past three years, in the worst depression we have ever known, a percentage on your farmers who owed you money, but were unable to pay you?—A. In regard to that, we have hardly sued a man, I am safe in saying, in three years back; and they are all paying as best they can, and they are going to pay.

Q. During your last year's operations?—A. I have had to give them credit to the very limit.

Q. Have you written off a lot of bad debts; how does that position compare with your position previously?—A. Well, I will tell you. Occasionally during the year's business you will have to write off perhaps some accounts, but to no great extent. In dealing with farmers, if they cannot pay this year, they will pay next. That has been my exnerience in dealing with them.

Q. As a business man and a good farmer in that section, do you consider that the farmers are just as anxious to pay now as they were three years ago?—A. Just as anxious to pay, exactly.

Q. They meet their obligations slower, but they meet their obligations as they used to meet them?—A. Certainly. they are doing their very best to meet their obligations.

Q. What percentage of your assets were you getting in credit four years ago? —A. Well, here is the bank's own statement. There are no secrets in my business, in regard to that. I am willing to disclose anything.

By the Chairman:

Q. Are you able to answer Mr. Howard's question? What percentage of your assets did you get in credit from the bank?

By Mr. Howard:

Q. Suppose your statement showed a surplus of $10,000; how much credit would you get at that time?—A. Well, anyway my statement shows a surplus of over $35,000 if every cent I owed, everything was paid.

[Mr. James B. Reed]

By the Chairman:

Q. You were able to get how much credit?—A. I am able to get $2,000 credit, as he mentioned there, but I am not making—

By Mr. Howard:

Q. In other words, when you have assets and surplus of $35,000 and serving a farming community, you get a credit of $2,000?—A. I have quite a job. Their hearts are generous enough to allow me—

Q. Ten years ago, when your assets, we will say, were $15,000, one-half of what they are to-day, how much credit did you get?—A. I cannot tell you to a dollar, but probably around $6,000 to $8,000.

Mr. MacMillan (*Saskatoon*): Was that discount or direct loan?

The Witness: Direct loan.

By Mr. Hackett:

Q. I should like to say a few words to Mr. Reed. North Hatley is about 20 miles north of the international boundary?—A. I think so, yes.

Q. It is on the Boston and Maine railway, which is operated by the Quebec Central?—A. Yes.

Q. On the main line to Boston and New England?—A. Yes.

Q. And our people are farming people who are almost exclusively engaged in dairying; that is true, is it not?—A. That is right.

Q. All of our dairy products went to New England, first in the form of sweet milk, and later in the form of concentrated cream?—A. Yes.

Q. And our farming community was prosperous. Then one day the government of the United States practically prevented the import, first of sweet milk and then of sweet cream to New England; and when that legislation was enacted in the United States, we lost our market and we ceased to be as prosperous as we were?—A. It perhaps did not help us much, but that is not the whole cheese, Mr. Hackett.

Q. It is not the whole story, but it did dislocate our commerce, didn't it?—A. It certainly affected the farmer in regard to his market; that is right, once he is deprived of a market, he is just out of luck.

Q. That made it hard for you and everybody else who was in business in that section?—A. Yes, it helped some, no doubt; but it didn't have near the effect on us as did the way the banks were handling us.

Q. I am not discussing that; but the loss of the American market is a factor?—A. Yes, it would have some tendency to curtail—

Q. If we could get back into the New England market with our sweet milk and cream, it would help us?—A. Yes; as I said before, anything that would help the farmer to get a market would help us.

Q. Now, the legislation which took the market away from us, was American legislation, not Canadian, is not that so?—A. Well, in regard to the cream—of course, I do not know about the tariffs; I do not know what changed it, but anyway, we know they did.

By Mr. Duff:

Q. I should like to ask a question with regard to the indirect line of credit. You have the discounting of customers' paper. What time do you give those customers when you take a note or notes from them?—A Well, most of our notes are taken for 30 days.

Q. Now, what happens when the 30 days are up? When the 30 days expire, what happens, do they renew or pay?—A. Here is what happens: one fellow will pay $5 on a $30 note, and another one will pay $10 on a $30 note, and a third one will pay the note in full, and we add his account to that note. That is about what we try to do in order to make these notes up. In a short time we get our amounts averaged up in that way.

[Mr. James B. Reed]

Q. Do the farmers look after their notes promptly?—A. They do pretty promptly. They are fairly reasonable, and do the best they can.

Q. Mr. Reed, may I ask you this question: my experience with the bank is this; if a customer from whom I take a note, or anybody else takes a note, looks after it promptly, and renews it, either by paying a small amount or a large amount, there is not very much difficulty in getting it rediscounted. But there are some customers who think a merchant like yourself and myself can carry a note indefinitely. They do not come in, and we have to write letters and perhaps go out and see them. You have that same experience?—A. Yes.

Q. Would not that be perhaps the reason why the banks do not want to discount all your paper?—A. Well, there must be—

Q. They do not want to discount paper of customers who do not look after it when it comes due?—A. There must be some reason because they are surely doing it.

Q. I am trying to find out what the reason is?—A. They hold this account, and if it is not paid, they hand it back to me, and I have to put it in my own safe; I cannot get it discounted. Further than that, as I said before, their judgment seems poor. I will tell you one little incident in regard to how they handle customers' paper. I had one man that was doing a little teaming business and he ran his account up to $160, several years ago. His name was —— . I do not know if he is a cousin of the member in this House. Probably he is not. He was a good teamster, and he was then out of luck, and we gave his note to the bank, and as a result he could not pay for a while on that note, and I was obliged to write off what he owed on that note each time and charge it back on the books in order to satisfy our gentleman across the corner. What happened? I kept doing that. Mr. —— was not paying; and one day I got a statement from the bank saying how well this man was paying.

Q. I might say that I can sympathize with you?—A. Now, let me tell you the rest of that story. This was a good teamster and a good worker, and as a result J. B. Reed hired him, and he has been working in his employ for a year and a half now, and after supporting his family he took every dollar he got and applied it to the old bill with the result that two weeks ago he paid us in full very dollar he owes us.

Hon. Mr. Euler: Would I be putting it fairly this way: that relatively for the same amount of security as you had three or four years ago you cannot now obtain the same proportion of loan from the bank as then?

The Witness: Yes.

Hon. Mr. Euler: And you would like to know from the banks the reason why?

The Witness: Yes.

Hon. Mr. Euler: I would like to know myself.

Mr. White *(Mount Royal):* May I ask who, in your opinion, is the proper judge of security—the borrower or the lender?

The Witness: Well, I do not know. There has been a vast change in the lenders in the last four years, because now they are restricting the credit to the tune I have been mentioning here without any perceptible cause or reason. That is what I say. And, now, if our good friend, Mr. Dodds, will tell us why they have trimmed J. B. Reed both on his discounting and on his customers' paper in the last few years, let him speak up.

Mr. Dodds: The last four years? Why his credit has changed? In 1928 he had a credit in his own name of $2,000 and $5,000 trade paper and to-day he has a credit of $1,500 in his own name and $7,000 trade paper which is a larger sum than he had four years ago. I think it is time to stop discussing his private affairs, but he asked me to say that.

The WITNESS: Here is a statement from the Bank of Montreal. It shows a surplus every year and shows the amount they were giving me, and the whole cheese is right there. Further than that, it is written by themselves.

By Mr. Irvine:

Q. Mr. Chairman, I would like to ask Mr. Reed if, when he was receiving, say, his highest figure of credit from the bank, would that amount probably have some definite relationship to those book values of his assets, would it not?—A. Well, I do not know. I am not sure.

Q. I suppose it would; but if the book value of your assets to-day are very much lower than they were then, you would naturally expect to have less credit now than you had then.

Mr. GEARY: Book value means nothing as to cost.

Mr. IRVINE: By book values I was meaning the banker's estimate of his assets.

By Mr. Irvine:

Q. I probably used the wrong term there. Would you be doing as much business now as you were four years ago?—A. No. I do not think I am. I will not say that, of course.

Q. Then, you would be willing to admit that on the basis upon which credit is usually given by the bank that they would be justified, according to the banking system now in vogue, in reducing your loan by that amount?—A. I would like to say something in regard to that. I have the statements for the last 38 years, and I find this that every thousand dollars they restrict me and my customers, I do less and less business. When we have no money to do business with we are handicapped in doing business.

Hon. Mr. EULER: Well, it is very interesting to have the details of Mr. Reed's own relationship with the bank. I have no doubt it is very important to him, but I think the committee is interested in the broader question as to whether, with the same security as they used to have, the banks are refusing to lend as credit the same proportion of money. I would like to hear what Mr. Dodds has to say.

Mr. DODDS: I can only quote you the figures I have quoted already, and to say that the security is not the same as when the credit was at its top. Also, in regard to turnover, Mr. Reed has told you himself that his turnover is greatly reduced. As a matter of fact, with all due respect to Mr. Reed, he has been treated, in my judgment, and I think in your judgment too after you have heard what has been said, very fairly and very decently by the bank, and it is unfortunate that I had to show that the statements he has made are not correct.

Hon. Mr. EULER: Would you say that with the same amount of security you would make just as great a loan?

Mr. DODDS: If Mr. Reed is willing—

The CHAIRMAN: No, with regard to the general situation—farmers and others.

Hon. Mr. EULER: I think that is the vital question: are farmers and others down there, or elsewhere, getting the same amount of loan proportionately as they used to on the same security?

Mr. DODDS: Assuming that the value is there.

By Mr. MacMillan (Saskatoon):

Q. Would Mr. Reed tell me what his assets were four years ago and what they are now, according to his own valuation?—A. As I told you my statement has not changed very much in the last few years. I am willing to be frank

[Mr. James B. Reed]

with you; and as I told you, the bank's own figures here show I had a surplus of over $35,265 in 1930, and in 1931, $35,200 and in 1932 I had $36,300. Now, that is the statement made out by themselves.

Q. How about 1933?—A. 1933 showed a surplus of $35,156. I do not make much money; I am willing to admit that.

Q. These figures are your own figures, are they?—A. No, no; they are the bank's.

Q. Are they substantially the same as the statement you gave to the bank? —A. They are practically the same statement I have given them.

Q. So that you placed the valuation upon them?—A. Yes. Further than that, Mr. Dodds mentions about $1,500 three years ago. He is taking the lowest figures and not the highest during the year, and I am willing to be frank, and I will meet any of the banking fellows with my statement any time.

Mr. DONNELLY: Mr. Chairman, I want to make myself clear. With regard to the statement made by Mr. Dodds, I understood him to say that on the same security now he is willing to lend the same amount of money.

Mr. DODDS: I said on the same value of security.

Mr. DONNELLY: You do not mean to tell me, for example, that if I had a square mile of land in western Canada to-day that you are willing to lend the same amount of money as you did four years ago or five years ago?

Mr. DODDS: You know that banks are forbidden to lend against land, so that part of it is out of the question.

Mr. DONNELLY: I understand you are not supposed to take it as security, but that is held as an asset.

The CHAIRMAN: Are we through with Mr. Reed?

Mr. IRVINE: There is just one more question to clear up this situation. Mr. Reed has just given us the estimate, as I understand it, of his assets from year to year to the banks.

The CHAIRMAN: Not estimate; it is a statement compiled by the bank.

Mr. IRVINE: Yes. It rather increased than decreased with the years, as I understand it.

The CHAIRMAN: It went up and down.

Mr. IRVINE: It was very nearly the same.

The WITNESS: We have usually cleaned up about $1,000 a year until the last few years.

Mr. IRVINE: What would you say was the estimate of your liquid assets during that time?

The CHAIRMAN: Now, do you think we ought to go into that?

By Mr. Hackett:

Q. Mr. Reed, will you tell me whether during the last eighteen months farm products such as butter, cheese, pork, beef and eggs have been higher in price on our side of the line than on the American side?

Mr. IRVINE: We can rule that out too.

The WITNESS: If he asked me that question, let me answer it. To tell you the truth, all I can do is to attend to our own markets.

Witness discharged.

The CHAIRMAN: Gentlemen, we will revert to the Bank Act. We are on section 56—Inspector General of Banks—and when we adjourned last week Mr. Tompkins was completing his statement. Will you proceed, Mr. Tompkins?

Mr. C. S. TOMPKINS, recalled.

Mr. IRVINE: Mr. Chairman, may I ask what you are taking up in the Bank Act?

The CHAIRMAN: Section 56 of the Bank Act, page 28 of Bill 18. Mr. Tompkins was making a statement on the question of bank inspection.

Mr. TOMPKINS: Mr. Chairman, I had really completed my statement on Tuesday afternoon. I tabled at that time the main evidence given by me before the Royal Commission on Banking and Currency and I notice that that is incorporated in the proceedings of the committee from pages 641 to 643, and that was prefaced by some questions with respect to non-current loans, and the issue of bank notes. I do not believe I have anything further of a general nature to say, but if there are any questions the members of the committee desire to ask I shall endeavour to answer them.

Mr. SPENCER: I have a few questions I would like to ask the Inspector General of Banks. May I ask what inspection there has been outside of the head offices of the banks?

Mr. TOMPKINS: None. I made that clear, Mr. Spencer in my statement before the Royal Commission.

Mr. SPENCER: Some reference was made the other day with regard to what you considered large loans. We adjourned the meeting just about that time. I would like to ask you what you consider are large loans.

Mr. TOMPKINS: I covered that also in my evidence before the Commission by saying that my inquiries were directed mainly to loans or credits equivalent to or exceeding 1 per cent of paid-up capital of the banks, and that did not necessarily mean that my examination was confined entirely to those loans. The auditors themselves examine credits down to a much more moderate figure.

Mr. SPENCER: At the present time what percentage of bank business will be made up of large loans?

Mr. TOMPKINS: Oh, it varies. I have no percentages before me at the moment, but on the average it represents a very substantial proportion.

Mr. SPENCER: What method have you with regard to inspecting?

Mr. TOMPKINS: Well, I have available to me the inspection reports by the banks' own inspectors, the entire correspondence between the head office and the branches or the district supervisors and the branches, the statements of the affairs of the borrowers, information and reports with respect to various securities and, in fact, everything that the bank itself has is available.

Mr. SPENCER: What time do you generally spend with the different banks?

Mr. TOMPKINS: I used to spend longer than I do now—in the earlier years. Now that I am more familiar with their affairs it requires less time. It varies from around a week to ten days.

Mr. SPENCER: Do you do more than read the reports of the inspectors?

Mr. TOMPKINS: I examine the correspondence and discuss various credits and have access to the minute books in which the credits are authorized, in fact, everything that is available at head office.

Mr. SPENCER: As you do not go outside of head office, of course, you have not gone west of Winnipeg?

Mr. TOMPKINS: I have been west but not on a particular inspection.

Mr. SPENCER: Do you find many what you might call large loans outside of Montreal and Toronto?

Mr. TOMPKINS: Oh, yes, a number.

Mr. SPENCER: East or west?

Mr. TOMPKINS: Both.

[Mr. C. S. Tompkins]

Mr. SPENCER: Do you actually examine the banking securities?

Mr. TOMPKINS: Oh, yes; but not the physical examination of all securities. Are you referring to the bank's investment securities or collateral?

Mr. SPENCER: Yes.

Mr. TOMPKINS: The physical examination of the investments is conducted by the shareholders' auditors twice a year. I have not found it necessary to duplicate that work because the auditor's own reports are available at all times, and they are available themselves for discussion.

Mr. SPENCER: You accept the auditor's report?

Mr. TOMPKINS: I do with respect to that.

Mr. SPENCER: And what staff do you employ?

Mr. TOMPKINS: The work of actual examination is conducted by me alone.

Mr. SPENCER: Then, your staff would be small?

Mr. TOMPKINS: The outside work is done entirely by myself.

Mr. IRVINE: May I ask one question? Do you examine all foreign loans?

Mr. TOMPKINS: Absolutely. They undergo the same scrutiny as the Canadian loans.

Mr. IRVINE: And as to the assets behind them, you would have to accept the auditors' statement entirely?

Mr. TOMPKINS: Quite largely.

Mr. DODDS: I think, perhaps, Mr. Tompkins might be slightly misunderstood. What you mean is that you accept the auditors' statement as to the physical position and make your own valuation?

Mr. TOMPKINS: Quite true. I thought Mr. Irvine was referring to the physical position.

Mr. IRVINE: Yes, I was.

The CHAIRMAN: Shall sections 55 and 56 carry?

Mr. SPENCER: I take it for granted that you would be consulted before the government gives a guarantee behind those various loans that we have had presented to us?

Mr. TOMPKINS: Not necessarily. I mean, you are suggesting that my approval, or a conference with me might necessarily precede the guarantee of a certain credit by the government?

Mr. SPENCER: No. I took it for granted that as one of the advisers of the treasury you would be consulted whether it was wise for the government to guarantee a loan.

Mr. TOMPKINS: Not necessarily.

Mr. SPENCER: You would not know anything about the loans that the banks had granted to the government of Newfoundland?

Mr. TOMPKINS: Only such information as was available to me when I examined the various banks that were interested.

Mr. SPENCER: When you examined those accounts, particularly with regard to Newfoundland, did you consider that the security was good?

Mr. TOMPKINS: Yes, I consider that the loans were sound, having regard to the position of the banks generally, their reserves and the whole picture.

Mr. SPENCER: In that case there should have been no reason for the government guaranteeing the account?

Mr. TOMPKINS: Well, I think there were larger considerations. I do not think I should enter into that. I do not think I should be asked that.

[Mr. C. S. Tompkins]

Mr. Coote: May I ask Mr. Tompkins one or two questions arising out of his experience as bank inspector, and particularly with regard to the business of the banks that is carried on outside of Canada? I would like to ask whether he examines any of the branches outside?

Mr. Tompkins: I have not since I assumed this office visited any branches outside of Canada, but as I said a moment ago, the large loans and other assets outside of Canada undergo the same scrutiny as the loans and other assets in Canada.

Mr. Coote: You are aware that there are large amounts loaned outside of Canada?

Mr. Tompkins: I am.

Mr. Coote: Are you quite satisfied that you are performing your duty satisfactorily by simply examining the reports at head office in regard to these matters?

Mr. Tompkins: I believe I am. I think I have a fairly good knowledge of conditions in the various countries involved.

Mr. Coote: With regard to the securities that are held by the banks and on which there was some discussion the other day as to whether the banks should show a list of those securities, do you find in your examinations that the banks may hold a considerable amount of securities of, say, a foreign country—a South American government?

Mr. Tompkins: To some extent. I think I pointed out, Mr. Coote, when I touched on this subject before, that, of course, the liabilities of banks in these particular countries are liabilities largely incurred in the same currency as their cash reserves or securities would be held.

Mr. Coote: You are quite satisfied. Without examining this foreign business, you are quite satisfied as far as we are concerned.

Mr. Tompkins: I am, yes.

Mr. Coote: We had some discussion here, Mr. Tompkins, about the banks inner reserves or contingent reserves—as to whether or not the public should know anything about them. Do you really think that the contingent reserve account of a bank is a very important matter from the standpoint of the financial standing of that institution?

Mr. Tompkins: I think it is highly important.

Mr. Coote: That being so, should not the public, as depositors, know something of the position of the contingent account of the banks?

The Chairman: That has been covered.

Mr. Tompkins: I think we have covered that quite fully, Mr. Coote. I certainly do not believe that would be advisable.

Mr. Coote: You do not think that the financial standing of the banks should be known to the public so that they might choose which is the best bank to entrust their deposits to.

Mr. Tompkins: I think if information of that description were given to the public it would not be understood; that it would convey a variety of impressions which would not be good, which would not always be justified by the inside picture of everything so to speak. I think it would be highly inadvisable that the public should be given every piece of information to which only the shareholders of the bank or the directors themselves are entitled.

Mr. Coote: Of course, I am not asking for every piece of information. You said that this contingent reserve was an important thing, and I am asking you why?

[Mr. C. S. Tompkins]

Mr. TOMPKINS: These secret reserves, so called, or internal reserves are necessarily subject to very substantial fluctuations sometimes, particularly when business conditions are not good; and the mere fact of drawing on them in these times might create a wrong impression in the public mind. They are built up, as we have all heard, in years of prosperity or in years of normal business, by surplus profits for the very purpose of taking care of losses which inevitably occur when depression exists.

Mr. COOTE: It is a little hard to reconcile your statement with the statement made, that people can choose for themselves which is the best bank to put their money in. However, if that is your considered opinion, I suppose we will have to accept it. In connection with the banks' foreign business, can you tell us whether some of the banks of Canada are loaning money to foreign governments, and are you quite satisfied, if that is the case, that those loans are quite proper?

Mr. TOMPKINS: I am quite satisfied with the position generally.

Mr. COOTE: The reason I ask is, that within the last year or so the government of Canada has seen fit to guarantee certain loans to the Dominion of Newfoundland?

Mr. TOMPKINS: Yes.

Mr. COOTE: I wonder if that is because the banks have loans there and they did not feel that these loans were perhaps any too secure without a government guarantee?

Mr. TOMPKINS: I think you are entirely wrong in assuming that.

Mr. COOTE: I am not assuming anything, I am just asking the question.

Mr. TOMPKINS: May I suggest, that the government did not guarantee those loans. The guarantees were given by the government of Canada for the purpose of assisting the government of Newfoundland to meet maturing obligations. In other words, the banks merely acted as the intermediary to make the loans.

Mr. COOTE: Unfortunately I was out for a minute or two while Mr. Spencer, perhaps, was asking you something with respect to the larger accounts. Is the bulk of those accounts in the head offices?

Mr. TOMPKINS: Oh, by no means; they are spread all over the country.

Mr. COOTE: Is the majority of them in the head offices?

Mr. TOMPKINS: No, I would not say so. Are you referring there to the head office department of the bank, or the chief office of the bank?

Mr. COOTE: I am referring to head offices in Toronto or Montreal, large offices in the city?

Mr. TOMPKINS: No, my answer would be just the same—the large credits are extended fairly well over the country.

Mr. COOTE: That being so, if this is to be a real worth-while inspection so far as the government is concerned, do you not think, Mr. Tompkins, it would be much better if you made a periodical inspection, an occasional inspection of some offices outside of Toronto and Montreal?

Mr. TOMPKINS: Well, I have not yet been able to see the usefulness of it. Of course, one difficulty would be to distinguish as to what branches one should visit, and really there is no further information available at those larger offices than there is in head office.

Mr. COOTE: Could you name on the fingers of at least two hands all the offices where large loans are made?

Mr. TOMPKINS: I would not undertake to do that. Of course, in the bigger cities you naturally have a greater volume of business.

[Mr. C. S. Tompkins]

Mr. COOTE: You have never gone to examine one country branch, just as a type?

Mr. TOMPKINS: No.

Mr. COOTE: I would like to suggest—although this is not in the form of a question—that you should do that.

Mr. TOMPKINS: I will be glad to take it under consideration.

Mr. COOTE: I think it might be well worth while, so that you would be able to convey to the minister and your department the condition which you find existing in some of the smaller branches, and it might help to secure more uniformity in interest rates, and, if I am in order, I would like to make that suggestion to you and to the minister while you are both here.

Mr. TOMPKINS: It is quite in order.

Committee continued consideration of Bill 18 until one o'clock, when it took recess.

AFTERNOON SESSION

The Committee resumed at 4 o'clock, p.m.

The CHAIRMAN: When we adjourned at 1 o'clock it was the intention to continue consideration of Bill 18 this afternoon and push it to a conclusion. Since that time, however, a meeting of the sub-committee has been held, and we have before us a gentleman from Vancouver who has travelled clear down here at his own expense, not as a private citizen but as a representative of some considerable body of thought in his community. The reason he has come here is this: He states that he applied to the Macmillan Commission at the time the commission was sitting in Vancouver; but I believe only the short space of two days were allowed for the hearings there. The names were listed in alphabetical order, and his name, beginning with "W," was near, if not at, the end of the list. The first day's hearing was occupied with representations made by various groups; the second day, when he hoped to be heard, was entirely monopolized by the gentleman who has taken up a good deal of time here, Mr. McGeer, so that at six o'clock on the second day, it was perfectly hopeless for him to attempt to get a hearing. He appeared before the sub-committee this afternoon, and it was the unanimous opinion of the sub-committee that this gentleman who has come down here at his own expense, representing as he says, a substantial body of public opinion in his province, should be heard at the present time. Therefore I am asking Mr. Woodward of Vancouver to come forward.

E. S. WOODWARD called.

Mr. BEAUDRY LEMAN: May I add that all gentlemen whom it was not our privilege to hear, were invited to file written representations setting forth their views.

Mr. HACKETT: Mr. Woodward even said he was invited to address your committee himself, but it was between six and seven o'clock, and he felt even commissioners had limits of endurance.

Mr. BEAUDRY LEMAN: We read a tremendous amount of documents that were filed in writing.

Mr. JACOBS: How long is the witness going to take?

The CHAIRMAN: Forty minutes. Before we hear Mr. Woodward, Mr. Lawson has a motion to make.

[Mr. E. S. Woodward]

Mr. LAWSON: I was going to suggest that we have not provided in this committee for an exigency which may arise, and that is, no vice-chairman has been appointed, and as it may be necessary for you sir, on occasions to be absent, I take pleasure in moving that Mr. John Hackett, the honourable member for Stanstead, be appointed vice-chairman of this committee.

Carried.

Mr. JACOBS: That is the only vice I know you have, sir.

The CHAIRMAN: I want to go home to-morrow, as a matter of fact.

Mr. GEARY: I think we adopted the principle in the case of some early witnesses, Mr. Douglas, I think, of paying their expenses. Now, that is going a long way. This gentleman is down here, and there will be a motion in that regard when he is through. I am not finding any fault—

The CHAIRMAN: The question has not been raised by Mr. Woodward.

Mr. GEARY: I do not suppose it was raised by the other witness.

The CHAIRMAN: It must have been raised somewhere. You have heard the motion carried this morning.

Mr. GEARY: I do not know how it will end, if people come forward and have their expenses paid. It having already been done for the other witness, I have no objection for this gentleman to have it.

The WITNESS: Mr. Chairman and gentlemen, I have undertaken to try to compress my remarks to the period of 40 minutes.

The CHAIRMAN: Tell the committee who you are, sir?

The WITNESS: I am the secretary of the Free Economy League of Canada. I was for 10 years consecutively an alderman of the city of Victoria, from the years 1921 to 1930. For 16 years I was either president or secretary of the Trades and Labour Council. Since I moved to Vancouver for university facilities for my family, I have been appointed national executive secretary of the Free Economy League. Amongst our members we have such well known citizens as Brig. General Odlum, Mr. J. T. Howard Falk—who I believe is very well known indeed in this section of the country—and a great many other business men. We also have representatives in practically every province in Canada. I feel, Mr. Chairman, that—

Mr. GEARY: Have you any branches in other cities?

The WITNESS: We are establishing branches. We have membership connected directly with Vancouver, but we are establishing branches in other cities.

Now Mr. Chairman, you have had what seems to me a great and mighty wind rending the mountain, as the Scriptures say, within the last few days, but I do not know whether or not the rest of the Scripture is true, that the voice of the Lord was not in the strong wind.

Mr. HOWARD: That is your opinion.

The WITNESS: No; I express no opinion, but I hope the rest of the Scripture will be true, that the voice of the Lord was in the still small voice which followed. I wish to skip the early portions of that which I would otherwise have said to you, concerning the new Central Bank. I wish to associate myself with those who believe that it should be a publicly owned and not a privately owned institution. I shall not dwell upon that, but I am quite convinced that public opinion throughout Canada is very strongly in favour of this new bank being publicly owned. I think members of this committee would be justified in taking cognizance of that very strong body of public opinion.

We approve what is already proposed to be done that this new bank shall have exclusive right of issue. That is surely in the public interest, and as it is proposed to be done anyway, I need not dwell upon it. I think it is my own view of the history of the past 20 years that this new Central Bank should

[Mr. E. S. Woodward]

have no international entanglements. Any agreements it makes should preserve to the people of Canada the right to construct their own monetary system. I believe there is a strong body of public opinion in favour of the demand. The ramifications of international finance are such that the Canadian people in their economic life will not be secure, so long as other places can determine their monetary arrangements.

Now, I wish to pass on to the preamble of the new bill creating a Central bank. I notice that it is proposed that one of its duties, its most important duty, shall be the regularizing, the elimination of fluctuations of trade, commerce, price levels, employment and other economic factors. Now, the very fact that it is embodied in the preamble, indicates that that is the view of the framers of the bill, and presumably it is the view of this committee, that this is something that is capable of being attained. One of the duties of the directors of the new bank will be to eliminate fluctuations in trade, commerce, prices, employment and so on. And the fact that you are delegating that duty to them indicates that those things are, in your opinion, capable of control. I therefore call your attention to the fact that hitherto those things have not been controlled. It must be logically inferred that some new policy, or some new instrumentality, will have to be devised and adopted if that important duty is to be faithfully discharged. It cannot be attained by adhesion to and reliance upon the monetary and banking policies of the past.

I want to say, in view of the divergence of opinion which is naturally present in a committee of this kind, that I believe that all of us from the top to the bottom, those who are in charge of the monetary and banking system and those who are not, are absolutely governed by the conditions laid down. If for instance, a man, such as the witness who appeared before you this morning, were to change places with the bankers, and if the bankers changed places with him, and they had to take over each others duties and responsibilities, they could not, except within the very narrowest of bounds, alter their policies. In other words, while there is much obloquy being heaped at this time upon the bankers, I believe they are as much the victims as the creators of the system about which we all complain.

Mr. IRVINE: If we could only get them to admit it, but they won't.

The WITNESS: That is my view; and while the league that I represent has some very pertinent criticisms to make of the present banking system, I think we all recognize that there are economic factors involved and only to a minor degree moral factors. Could the one get inside the other man's skin, there is very little he could do that is not being done by the other.

That brings me to the, shall I say, the middle portion of the address that I would otherwise have given. What is it in our economic system that compels the bankers who operate the system, by which they are bound, whether they desire it or not, to contract credits in hard times. They cannot ignore the question of the safety of their loans, irrespective of what they would desire and like to do. In each individual case, they must be governed by hard business considerations. On the other hand, what is it that compels business men to lay off employees that they would very gladly retain if they could; but self-preservation dictates that they should be eliminated? I am asking you members of this committee to decide what it is in our economic system that is controllable; for remember in your preamble you are asking these people to control it. What is it that is controllable that has hitherto been uncontrolled, which imposes upon all of us who seek to be Christian men the unpleasant duty of treating each other harshly in these hard times? That is what I am going to propose to answer.

You are all familiar with the course of a trade cycle. I am going to give you the very minimum of theory. I am not proposing to trespass upon

[Mr. E. S. Woodward]

your good nature by going to into elaborate theories, but just briefly to sketch it in order that my remarks may be intelligible. You know the course of a trade cycle—when money comes freely into circulation and circulates at high velocity, when prices are carried forward, when merchants buy heavily to-day because if they defer purchasing they will buy disavantageously in the future, when prices are carried forward, when building construction proceeds, when speculation goes forward; you are all familiar with that. That is the course, is it not? Why does it cease? What was it that in 1929 brought to a sudden halt the process which had been in continuation for some years, and in the view of those who had not given sufficient consideration to the fact that previous boom cycles had come to an end, would indefinitely continue. What was it that brought the machine to a stop; that made the bankers contract; that made you business men contract; that threw ordinary citizens into unemployment? I am going to suggest to you it was a factor arising out of a very simple defect in our ordinary instrument of exchange: that had we been equipped with a slightly different instrument, preserving the same policies, preserving the same banking policies, the same monetary policies, simply equipping ourselves with a slightly different instrument, the worse effects of the debacle could have been avoided.

Now, you will observe that every farmer, every producer, and every merchant is handling depreciating products. The farmer with a harvest of wheat on his hands has something that is attacked by natural enemies. Unless he markets it quickly, he must protect it by storage from rats, from damp, and from a thousand and one other natural enemies. The merchant who has goods on his shelves is compelled to keep them moving. Dead stock means dead loss. The longer he holds that stock dead, the surer it is that he will go down into bankruptcy. Now I say every product of man, with the exception of that of bankers, is subject to that natural process of deterioration or decay; so that the holder of such products must lose on them if he cannot hurry them to market. We are equipped with a monetary instrument—and it does not matter to me whether you think in terms of metallic gold or whether you think in terms of pieces of paper—which is of undepreciating value, which is continuous, and not subject to deterioration—we are equipped with a monetary instrument, which is a good dollar bill to-day, which is a good dollar bill in six months' time, and a good dollar bill in twelve months' time, and a good dollar bill indefinitely. The result is that the industrialist, when he is negotiating with the financiers, is negotiating with people on unequal terms. The one has a product which he must get to market, the other one, when conditions do not look good, and they did not look good in 1929, which he can simply withdraw from the market. When that happens, the other man is stranded. I suggest that that is exactly what has happened at the climax of every trade cycle. Consider this: here is a man that is in the house contracting business. He is increasing the number of houses. So long as he can recover from the cost of his houses, the interest that he must pay for the use of his money he can continue the task of building construction. Here is a man producing products for sale. So long as he can recover from the price the interest that he must pay for the use of that non-depreciating money, he can continue that work of construction and production; but it is an inevitable law that the greater the increase of wealth, the lower the interest rate falls. If that is not good Marxian theory, at least it is good theory.

The greater the number of houses, the more certain it is that the builder of houses cannot recover interest from the prices. If I duplicate in Ottawa to-morrow the number of houses I will not thereby double rents; as a matter of fact, I will precipitate a collapse of rents. If I increase the outflow of wealth of any other kind, I do not double the power of the capitalist, as we are sometimes taught; I very much weaken it. And the result is that at the point interest

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rates are threatened, when wealth is beginning to be produced in such profusion as to be available to mankind at large, at that point money withdraws from circulation, because it is able to withdraw. There is no penalty awaiting it when it withdraws from circulation. Therefore I am suggesting the remedy is that we shall equip ourselves with a type of monetary instrument—I am not dealing with banking policy; I am not dealing with monetary policy; I am dealing with the mechanical contrivance of money with which we seek to discharge the business of everyday life—I say, if we are equipped with a kind of money which partakes of the same depreciating character as the commodities for which we use it, all parties will bargain on a level; that in the time of crisis money must stay in circulation, and so long as it does stay in circulation, there can be no collapse.

Your preamble deals with the fluctuations in trade and in commerce, the change in situation between 1928, 1929, 1930, 1931 and 1932; and I say that if money could not have been withdrawn, if dollar for dollar had stayed on the market, if it had revolved at the same rate of velocity as it had in 1928, the conditions since 1928 would have been no worse, at least, than they were in 1928. This system, while it perhaps sounds rather strange, and to some radical, has been well tested. It is not a new theory. I will prove that by giving you three illustrations that cannot be gain-said. In the first place, during the time of rising prices, we automatically have a time of depreciating currency. In any boom period when prices are rising, it is equivalent to saying that money is falling, is it not? So that the proof is there, that the depreciating currency would help to solve our problem. But I can go back to two centuries of history and show that Europe was equipped with practically nothing else. In what is still called the golden age of Europe, from 1150 to 1350, the people were equipped with a metallic coin or disc. It hardly merited the name "coin." It was called the "Bracteat." These "Bracteats" were thin metal discs issued by the church,—which was both the temporal and spiritual overlord at the time —upon which were dividing lines. For making small change you broke off a piece and thereby paid your bills. The result was that this coin became frayed, and they were called in and reminted several times a year. The church, with excellent economic foresight and acumen, determined to charge a very stiff reminting fee. The result was that those who had some coins on hand and wished to avoid the reminting fee, passed those coins along, while the passing was good. It added to the velocity of money circulation, and with the proceeds of the reminting fee, the Catholic church built those wonderful cathedrals, those works of art which to-day are the marvel of the world. We wonder in our 20th century civilization how it was that away back in 1150 to 1350 they were able to build cathedrals employing the finest architects, employing the finest artisans, skimping nothing, but doing everything as the work of the soul—we wonder how it was done. It was done under the influence of a monetary instrument that kept the banker and the trader on equal terms. Money circulation was guaranteed and the proceeds from the reminting fee were used for the public good. I say that we can well, in this Twentieth century, learn a lesson from history. The theory has been tried in the form which I am recommending, on the continent of Europe several times in the last few years. I can place as an exhibit the experience of a mining town named Schwanenkirchen in Bavaria. The facts are well known from the work of Irving Fisher who sent over to investigate the facts. Subsequent to that an experiment or a demonstration was given at an Austrian town called Woergl, and those of you who read the Manchester Guardian of England will remember that about Christmas morning they published an account of the shutting down of this experiment by reason of it being found in conflict with the money-issuing powers of the National Bank of Austria, but testifying to the overwhelming success that had attended that demonstration in the midst of a country suffering worse than we are from the evils of depression. Other Austrian mayors by the score

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visited the town, and I have seen illustrated papers in the French language and in various cities in America giving an account of the success of the demonstration, proving that the kind of monetary instrument I am suggesting will eliminate the worst of these fluctuations of which your preamble speaks. I am not putting this forward as a cure-all, but I do say that if there is a defect in our monetary instrument which automatically, of necessity and mathematically, brings the processes of civilization to a standstill about every ten years, it is time that as hardheaded business men we should attend to that defect in our mechanical contrivance and put in one that is free from that defect. That is very briefly and sketchily what I would like to have given you a little more elaborately and have brought my proofs before you in a little more complete form, had I not given the undertaking to the Chairman that I would spare you, in view of the fact that hitherto you have not been spared. I am now available for your questioning.

Mr. Lawson: Would the gentleman outline what he proposes? Is it the stamp dollar or what?

The Witness: I am proposing a form of money in exactly the same form as the dollar bill you have to-day, with the exception that spaces shall be provided for the monthly affixing of stamps. (See Appendix AE). A stamp of 1 per cent shall be levied on the holder of a note, whoever he may be, on the first of each month. That is, if you have a one dollar bill you put on a one-cent stamp; if you have a ten dollar bill you put on a ten-cent stamp and if you have a hundred dollar bill you put on a one dollar stamp, and it is payable whether it is held by a member of the public or even if it is in the hands of a bank; it does not matter who it is. Therefore, they have on their hands an instrument which it pays them to get rid of, and so long as money is in circulation it is employing men, and so long as money is in circulation it is producing, distributing and enabling the consumption of goods. Now, then, I ask you not to treat this as if it were not worthy of consideration. Professor Irving Fisher has put his name and reputation behind it. It has the endorsement of leading economists on the continent of Europe. In my judgment, it is coming anyway by the force of economic circumstances. This thing must be done.

Mr. Jacobs: How is this to be done?

The Witness: This will be issued in exchange for the currency you now have. Assuming this were brought into effect on the 1st of June, everybody who had some currency would exchange it for this; everybody who had a current account would, through the banks, be subject to a 1 per cent monthly tax.

Mr. Michaud: Who would issue this?

The Witness: The government, the central bank. I am proposing to issue this instead of the bills which are now issued.

The Chairman: How would those who have not got anything get any? Those are the people who need it now?

The Witness: They would soon get it if money were in circulation.

Mr. Coote: The same way they get it now.

Mr. Michaud: How would it come into the hands of those who want to exchange it?

The Witness: Through circulation. The fact is that the people who have them must use them. Let us assume that what is generally said is true—that Pierpont Morgan has many millions that are not working. The moment you force those dollars out into industry then they are working—house construction must go forward, production and distribution must go forward.

Mr. Michaud: But will the money that is now being held by the banks be any good after you issue this?

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The WITNESS: Any money the banks have will be changed for the new kind. If our witness of this morning went to a bank manager at a time when the bank manager had quite a few of these on his hands, he would meet with a kindly reception.

Mr. MICHAUD: Would he? That is the question.

The WITNESS: He would, because the bank manager would be as anxious to get rid of them as the other man would be to get them.

Mr. GEARY: How would you handle your money in the bank?

The WITNESS: The same way. If it was a current account it would be subject to a monthly charge of 1 per cent.

Mr. LAWSON: What about savings accounts?

The WITNESS: They would be exempt. When the bank takes money over the counter in its savings department—it is a misnomer to call it a savings account. I think the banks, in fairness to themselves, should call it an investment department. The term "savings deposit" suggests that the depositors have their money on call, whereas, as we all know, savings deposits are all invested either in bonds or in loans and so on. The fact that the public are in the habit of thinking of their money as lying in a bank as a savings deposit is harmful to the bank and misleading to the people.—That is an aside.

By Mr. Sanderson:

Q. What about cheques?—A. They would be handled the same way as now; there would be no change whatever.

Q. Would there be the same form of cheque?—A. The same form exactly.

Mr. IRVINE: Would the depreciation apply to cheques?

The WITNESS: To the current account. The current account at the end of the month would be subject to a tax of 1 per cent.

Mr. COOTE: If I had a cheque for $100 and held it for two months would I have to provide the stamps?

The WITNESS: A very simple regulation would deal with that hangover of cheques from month to month.

Mr. JACOBS: Who pays the penalty for anybody who retains them?

The WITNESS: I want you to think of this exactly as you would think of a baggage check. When you put baggage down on the wharf they do not give you unlimited time to remove it; they charge you. This is simply a cheque on a commodity in the market; the demurrage stamp is an instruction to you to clear your goods out of the way and make room for some more.

Mr. GEARY: If someone had a deposit of $101 and gave a cheque for $100 and the payee of the cheque did not cash it before the end of the month the drawer of the cheque would lose his money.

The WITNESS: No, I answered that previously; I said a very simple regulation would deal with the situation.

Hon. Mr. MORAND: Professor Fisher did not exempt savings accounts; all accounts were treated the same way.

The WITNESS: I think not.

Mr. DONNELLY: Would there be any interest on our money?

The WITNESS: As the effect of this, interest would fall gradually.

Mr. DONNELLY: If I got money from the bank would I have interest to pay?

The WITNESS: Presumably, if it were introduced to-morrow, you might, but eventually the tendency would be to a natural fall in the interest rate.

Mr. IRVINE: They would save 1 per cent by giving it to you.

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The WITNESS: As a matter of fact, in reference to this gentleman's question, Irving Fisher suggested that the banks, to protect themselves against frivolous temporary savings, would actually call for the stamping of one month in advance on receipt of a savings deposit, in order to escape the frivolous depositor who slips in one day and takes his money out another day. He would make the time for them 60 days instead of 30.

Mr. JACOBS: Where is this being carried out?

The WITNESS: In Bavaria and in Woergl in Austria. I hope you will excuse my German.

Mr. JACOBS: I'll excuse anything that is German.

The WITNESS: If you wish I will now read to the committee a brief summary of that experiment and the report made on it by the mayor. I propose, in any case, to file it as an exhibit. Woergl is an industrial community in the Austrian Tyrol.

Hon. Mr. LAPOINTE: Would there be any limitation to the issue of these papers?

The WITNESS: It is up to the central bank. They will follow the same banking policy in any case. I am only giving a different instrument. They would have their rules exactly as now. I am not proposing any change in banking practice or banking theory; I am only providing a different monetary mechanism.

Mr. IRVINE: When a dollar bill has circulated for twelve months, I suppose it will be renewed?

The WITNESS: When it has circulated for twelve months there will be a brand new issue of exactly the same kind.

Mr. IRVINE: It vanishes.

The WITNESS: Each year there will be a new issue. Woergl is an industrial community in the Austrian Tyrol of about 4,300 inhabitants. There were, up to July of last year, 1,500 unemployed, in the little place and delinquent taxes had reached the amount of 120,000 shillings. Last summer complete economic collapse seemed to be imminent, when the mayor, Michael Guggenberger, began his new experiment. On July 5, 1932, he submitted to the local relief committee an emergency plan, which, because of its singularity, called forth general interest:

> A slow flow of money is the cause of existing economic paralysis. Money, the medium of exchange, fails more and more to reach the hands of the productive needy masses. It seeps into the channels of interest, accumulates into the hands of the idle few, and is no longer available for goods and services.
>
> Thus the medium of exchange is turned into a medium of speculation. If this be allowed to continue, it will paralyze, disintegrate and kill the economic organism of the nation.
>
> Even if we are unable finally to liberate the world from this parasite, we can at least hoist a signal and give a lead.
>
> People depend for their economic existence on the exchange of their products and services. Slow circulation of money has almost completely interrupted the exchange. Millions of people have thus lost all opportunity of satisfying their material needs.
>
> It is absolutely imperative to restore and safeguard exchange and, therefore, to substitute the national money within the community for a medium of exchange which, because of its nature, was bound to remain a medium of exchange.

That was the remark of the mayor in his preamble. Service scrip in three denominations, 1 shilling, 5 shillings, and 10 shillings, was put into circulation.

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The casual holder had to affix a 1 per cent stamp of the face value at the beginning of every month. The community and citizens bought this service scrip from the relief committee and made all payments within the community with it, with the exception of the post office and railroad company.

Even before the service scrip was put into circulation, the Austrian National Bank, the guardian of the Austrian financial power, protested against the money-substitute, and declared the service scrip to be "money." The mayor contested this assertion and, without giving further consideration to the protest, proceeded on his clearly recognized way to rescue.

The first payment of bills by the city by means of the service scrip, amounting to 1,500 shillings, resulted in all the service scrip being paid to the grocers, merchants, etc., of the town. They, in turn, returned the service scrip to the town treasurer in payment of taxes. Only two days after this first payment had been made, the whole amount of 1,500 shillings was back in the treasury of the community. It was issued again in payment of bills and, within a month, accounts totalling more than twenty times the normal value of the issued service scrip had been balanced. Also, within the community the service scrip circulated without interruption in settlement of mutual obligations. After years of despair, hope, joy illuminated the faces of the people.

The little community employed 50 workers for extra public work. All the streets were repaired or newly constructed. Workers were busy at the quarry the steam roller was in continuous use, tens of thousands of feet of sewer and concrete sidewalk stones were produced. A jumping hill for ski sports established. Business and trade revived.

Within six months more than 50 per cent of the heavy accumulations of tax arrears were paid by the citizens. The value of public work alone amounted to 100,000 shillings without increasing communal taxes and debts by 1 cent. What never had been believed possible only six months ago, had become a reality; the little town, with its almost complete economic stagnation, unemployment and misery, had been transformed into a centre of work and activity.

This almost miraculous result, with its irresistible inducement to imitation called forth again the opposition of the sinister Financial powers. The district authorities forbade on January, 1933, the continuation of the "experiment." Once again they were ignored by the courageous mayor who knew that as never before, he had the whole community behind him. Woergl continues on the road to prosperity. It has since then been shut down.

This is what the Manchester Guardian said:

> Emergency money issued by municipalities was declared illegal on Saturday by the Supreme Constitutional Court in Austria.
>
> The socialist municipality of Woergl, in Tyrol, had issued certificates to the value of 1 shilling, 5 shillings, and 10 shillings, to be used by employees and business people as emergency money. There was a one per cent tax placed on these certificates to insure a quick circulation. The municipality obtained amazing results. They soon collected the whole of the tax arrears of the previous year, and their receipts for the present year rose considerably. Moreover, with the help of this emergency money, they were able to carry out rather important emergency work which gave employment to many people. The success of the scheme created interest everywhere, and other municipalities began to consider the introduction of such emergency money.
>
> At this juncture, however, the Austrian National Bank intervened and asserted that the issue of the money conflicted with the bank's monopoly of note issues. The Supreme Constitutional Court, to which the municipality appealed against the objections of the bank, found yesterday that the issue of such emergency money did conflict with the bank's patent.

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Now, I am not proposing that this be issued as emergency money. I am asking that the trade, industrial and monetary policy of the nation be seriously considered, permanently removing this defect from our monetary instrument, and do it as a national matter by the new central bank.

Mr. CASGRAIN: What other countries besides this country mentioned tried the system?

The WITNESS: There have been notable experiments in the United States that have been variations of it. In his book "Stamp Scrip"—I see there is a copy of it on that desk—Professor Fisher says that most of them took the form of the affixing of a stamp on the turnover. That was not successful. But in those places where they put it as a time charge that fell inevitably on a fixed date, it was successful.

Mr. CASGRAIN: What is the population of these townships, districts or countries where this experiment was tried?

The WITNESS: This community had a population of about 5,000 people.

Mr. HACKETT: Who issued the stamps?

The WITNESS: The city. In our case, I am proposing the nation.

Mr. CASGRAIN: Do you know of a nation as large as this country where it has been in operation?

The WITNESS: I have given you the whole of Europe from the years 1150 to 1350. Professor Thorold Rogers records in his "Six Centuries of Work and Wages" that the working men at that time actually got unbelievably high wages and as the result of a few weeks work were able to maintain themselves for a year; that they invariably had four course meals, and wages and conditions of labour rose as never before or since.

Mr. JACOBS: Do you suggest that we should go back to the middle ages?

The WITNESS: No, I am suggesting that you go forward to the golden age.

Hon. Mr. LAPOINTE: What is the amount which the government or the central bank would get as the result of the receipt of those stamps?

The WITNESS: Assuming that you substitute your present monetary issue, approximately $250,000,000 of currency and approximately $750,000,000 of current accounts, making a total of one billion. Assuming you preserve present ratios and present volume, you would obviously be getting into the Federal Exchequer practically without cost an additional $120,000,000 a year.

Mr. JACOBS: In due time it would take the place of all taxation?

The WITNESS: I am not putting it forward as that. If you wish to raise revenue by this means you could make it a weekly charge. I am not suggesting primarily that this should be a money raising device; it should be a device to eliminate fluctuations in trade and commerce; which is to be one of the responsibilities of the directors of the new bank.

Mr. DONNELLY: Do I understand you to say that this has been tried in Germany and it was stopped?

The WITNESS: Yes, it was shut down there by the authorities.

Mr. DONNELLY: And then put in operation again and finally declared illegal?

The WITNESS: In Bavaria at Schwanenkirchen it was held to be legal. The courts tested it and it was held to be legal, but at the instance of the Reichbank the government shut down on the experiment although courts decided it was legal. But at Woergl it was held to be illegal and shut down as the result of the court's decision.

[Mr. E. S. Woodward]

By Mr. Donnelly:

Q. With money of this kind, how would you insure it being of any international value whatever?—A. We do not require a Canadian currency that shall have an international value. If we buy American goods to-day we buy American currency, but, in the end, international trade is an exchange of goods.

Q. But our money has a certain relative value outside, and if you put a tax on it it will be relatively much lower?—A. Americans wishing to buy Canadian products will have the same condition to face, because what they want to do is buy Canadian goods.

Q. What will you use for American goods?—A. All trade is done simply by bills of exchange ultimately.

Mr. IRVINE: Would you spend a moment explaining how the introduction of this instrument, if you like, would affect debt?

The WITNESS: On debt? I personally think it will put the whole thing on a spot cash basis.

The CHAIRMAN: That would be the millenium.

The WITNESS: In all seriousness, I say that if I gave you $1,000 and to-morrow is stamping day, for any bills you may happen to owe, you are going to settle to-day.

By Mr. Coote:

Q. I have one or two questions to ask. Would this, in your opinion, absolutely prevent the hoarding of money?—A. Absolutely.

Q. It would insure a certain velocity of circulation and would enable those who are in control of monetary policy to maintain a stable price level?—A. Absolutely.

I want to say in reply to something said by the witness, who gave you so much of his time, when he questioned the validity of the quantity theory of money. He was right insofar as present experience goes; but with the use of demurrage currency the quantity theory of money is as absolute as the law of gravity. This brings the circulation of money and its velocity under the control of the monetary managers.

Q. It may be necessary perhaps to change the per cent of taxes levied periodically?—A. I did not get your question.

Q. I mean, you might get too great a velocity of money or not enough. You would not state that one per cent a month is necessarily the depreciation that must be continued?—A. I do not think it would be necessary to vary the rate. There would be established one per cent monthly on a $1 bill, but if you had a $100 bill, you could make it a weekly charge, or something of that kind. That is generally advocated. But in my opinion the variations in velocity would be practically eliminated by reason of the fact that you cannot hold it long, and you get in the habit of passing it along.

Q. We can say this, there is a possibility that it might be changed?—A. The directors of the Central bank would have absolute charge of the monetary policy. I am not now suggesting the policy that they shall establish. I am suggesting to them an instrument which will aid them in the carrying out of the preamble in the bill, the fluctuations in Trade and Commerce that we all so much deplore.

By Mr. Irvine:

Q. It does not seem to me to be a very easy thing to carry on a private banking institution under this system?—A. I personally think the banks will be as useful then as they are to-day.

Q. I do not mean that. I mean to say it does not seem to be an easy thing to have a bank carry on a profit gaining business on this basis?—A.

[Mr. E. S. Woodward]

Well, I think myself that banks will cease to depend on interest for their revenue. They will make a specific charge for their services. They will be merchants in the strictest sense of the term. If I desire them to carry my account and do service for me, it will be on agreed terms. The business of banking will adjust itself to that instrument as surely as it has adjusted itself to the instrument that we all know.

By Mr. Spencer:

Q. Do you suggest charging on the minimum balance per month on the current account?—A. No, the balance on stamping day.

By Mr. Geary:

Q. How does this work out? It is practically a matter of handling, and it seems to me it will be a little difficult in making change, if you want to get rid of your maturing note.—A. They do the same,—

Q. I am not questioning your remarks. It is not a serious question?—A. It is a serious question. The question affecting the handling of it every day is a very serious question, and we have considered all those things. We issue a new coinage every year, and charge a small reminting fee, exactly as they did from 1150 to 1350. That gets over your difficulty about small change.

Q. I understand, Mr. Woodward, that your currency is nominally put in circulation for one year?—A. That is right, and then a new issue.

Q. You will have to handle it for just one year in the meantime?—A. It will be passing around.

Q. And stamps falling off?—A. No, no. As a matter of fact, most of the stamping will be mechanically done. It will be done in the banks, the post offices, and other places where there will be mechanical contrivances for doing the stamping. I do not think this question will affect it once you see the desirability of the suggestion.

Q. That is what I mean; it was not a serious objection.

Mr. Lawson: I should like to ask a half dozen questions to see if I can get something clear in my mind, but I shall be very brief. If I understand, Mr. Woodward, your idea is this monetary unit we use will ultimately result in a period of time in all transactions being made in cash?—A. When I say cash, I mean spot payment. They may be done by cheque.

Q. Spot payment, and therefore you would eliminate credit, short-term credit, within a very short time, if I understand your scheme?—A. No, I think it will be the other way. I think a good deal of borrowing that is done for short term services by merchants to-day will be unnecessary, because they will have the money in, but I think for long term loans it will be even more than now. The people that now have their money lying up in stockings will put them into savings banks, and savings banks will lend them out.

Q. Mr. Woodward, do you seriously consider there is any amount of hoarding in this country?—A. Yes. The question is do I seriously contend there is such a thing as hoarding to-day? It is a matter of history that in January, 1931, or 1932, President Hoover inflated to the extent of $2,000,000,000 and the official reports of the United States now say one half of one per cent entered circulation.

Q. In the United States you have another situation. You have a vast foreign population there and Europeans particularly. Certain nations are known as hoarders, but in Canada, where you have a comparatively small European population, I think it has been pretty generally conceded there is very little hoarding.

Mr. Irvine: The banks hoard it.

[Mr. E. S. Woodward]

The WITNESS: What is meant by "hoarding"? Anything that affects the velocity of money is a form of hoarding. The banks to-day, and I am not complaining about the banks, by force of circumstances, have had to contract loans, hold great cash reserves against expected claims, and so that money is idle because it is not out in loans.

By Mr. Lawson:

Q. I accept your statement once I see what you mean. Now, let me take another thing. Do you agree with me that in order to have what is commonly called prosperity or normal times, whatever you desire, you must have at least two conditions: one is the use of accumulated wealth plus the velocity of circulation of money; that is correct, is it not?—A. Yes.

Q. Well, I understand in your scheme you would increase the velocity of the circulation of money of this kind but you do nothing to compel the use of already accumulated wealth in order to make more production?—A. I am not interfering with the question of credit. That is what you mean? The way that we liquefy accumulated wealth is through the credit facilities of the banks; but I am not proposing to disturb that.

Q. No. You have not got my point. What I am trying to get at is this: If you are going to have normal conditions then you must have accumulated wealth constantly used in new ventures or for new production?—A. Correct.

Q. And along with using that you must have velocity of circulation of currency or credit or currency and credit; your scheme, if I understand it correctly, is to increase the velocity of the circulation of credit currency, but it does not attempt in any way to compel the use of accumulated wealth for further production?—A. Frankly, I do not get the question, whether it is that I am slow or not, I do not know.

Q. Possibly I am?—A. It seems to me exactly the contrary.

Mr. IRVINE: Ask what he means by "wealth"?

The WITNESS: It seems to me if the processes of industry are continuous and uninterrupted, and there is no shut down of that process, these two forms of wealth must of necessity be in use.

By Mr. Lawson:

Q. Let me take a simple illustration. I will not take gold; I will keep away from gold, but let me assume I have a ton of copper. To the extent that that copper has a market value I have wealth in the form of copper, have I not?—A. Yes.

Q. Now, so long as I hold the copper myself, I am not using that wealth to create any more wealth, am I?—A. Correct.

Q. Well, multiply my situation by 100,000 people and you have 100,000 people who are not using their accumulated wealth for the purpose of producing more wealth, and all I say is, in your scheme, as I understand it,—and I am trying to understand it—you do not endeavour to compel the use of accumulated wealth, you merely deal with the velocity of circulation?—A. As a matter of fact, there are two replies to your question. It seems to me absolute. In the first place, your copper will be inflicting a loss on you, if you store it. I do not think you will suggest that copper is imperishable. Therefore, the longer you hold the copper, the longer you will inflict the loss on yourself; but the answer I would prefer to give is this: If you have money that you must find a use for, and you will agree that, if you have some of this money you must find a use for it. You have some copper on your hands that you are not turning to account. The most natural use you will apply your money to, will be to turn your copper into electrical appliances and equipment and thereby get the use of both. You are making no gain by holding your copper idle, even if

[Mr. E. S. Woodward]

you do not sustain a loss. I suggest you do sustain a loss; but if in order to avoid a loss on your money you are forced to bring your copper into use, then you get use from both.

Q. Let us deal with it from the practical standpoint. If I had a ton of copper for the last year I could have held that copper for a profit, not a loss because the price of copper has been going up. Now then, all I say is there is nothing in your scheme is there, to induce me to use my accumulated wealth, which I have in the form of a ton of copper?—A. Yes.

Mr. Irvine: How could the price of copper go up if nobody was using it?

The Witness: It seems to me that the question is—

Mr. Lawson: The price of gold went up, and nobody was using it.

Mr. Irvine: Nobody ever used that.

The Witness: It seems to me a change in the monetary instrument that forces the putting of money into use and forces industrial processes to their maximum activity, must embrace within its scope the stores of copper which may be here now. How you can expect to hold copper within that process, I do not know.

Witness discharged.

Mr. Coote: I move that the witness' travel expenses and expenses in Ottawa be paid.

(Adopted unanimously.)

(The Committee resumed consideration of Bill 18.)

HOUSE OF COMMONS,

TUESDAY, May 8, 1934.

The Select Standing Committee on Banking and Commerce met at 10 a.m. Mr. Hackett, Acting Chairman, presided.

The ACTING CHAIRMAN: We are meeting this morning, for the first time, in the absence of our very dear friend and fellow member, the Minister of Finance. You all know of the tragedy that has come into his home. It will probably be impossible for him to attend the meetings of the Committee for a few days.

The Prime Minister has come to represent the Government in the deliberations of the Committee this morning. We will endeavour to go as far as we can, without getting too deeply into any controversies which must remain to be settled, after notice of motion.

Mr. DODDS, President, Canadian Bankers' Association, recalled: Mr. Chairman, may I submit this return as to bank employees—salaries, pensions, and other advantages incidental to their employment, which was called for in the proceedings of April 24th, 1934.

The CHAIRMAN: The return will be published in the proceedings.

RETURN AS TO BANK EMPLOYEES

SALARIES, PENSIONS AND OTHER ADVANTAGES INCIDENTAL TO THEIR EMPLOYMENT

From the Proceedings and Evidence, Banking and Commerce Committee, April 24, 1934: " On motion of Mr. Morand—

Ordered that the chartered banks file with this Committee a return showing:—

(*a*) the classification of bank employees;
(*b*) the salaries, maximum and minimum of each classification;
(*c*) the average age of employees in each classification;
(*d*) the pensions and other remuneration of employees;
(*e*) the restrictions upon marriage of employees;
(*f*) the proportion of employees' contributions to pension fund returned when a bank employee is dismissed;
(*g*) the age at which superannuation becomes effective;
(*h*) the proportion of employees' contribution to pension fund payable on superannuation."

(*a*) Classification of bank employees.
(*b*) Salaries, maximum and minimum, of each classification.
(*c*) Average age of employees in each classification.

Group	Average Age	Age Range	Salary Minimum $	Salary Maximum $
Juniors..	20	18–23	300	1,000
Ledgerkeepers..	23	19–46	400	2,580
Tellers..	25	21–55	500	2,620
Accountants..	33	21–49	700	4,000
Managers..	44	27–64	1,200	13,500
Women clerks and stenographers	28	17–50	300	2,000

(*d*) Pensions and other remuneration of employees.

(NOTE.—As to (*d*), (*e*), (*f*), (*g*) and (*h*), the information following is the return of four representative banks).

BANK "A"

Every male employee of the Bank, provided his medical examination is satisfactory to the Bank's adviser, is a member of the pension fund society and pays to the society a yearly contribution equal to 4 per cent of his annual bank salary. The amount is deducted by the Bank each month from salary. All entrants must be re-examined upon reaching the age of twenty-one years and those who at that time do not pass the medical examination have refunded to them the payments made by them to the society. The Bank pays dollar for dollar to the pension fund society an amount equal to the annual contributions of the staff. Since 1909 the Bank has contributed $50,000 annually in addition to these dollar for dollar contributions and on receipt of the Actuary's report of the Pension Fund Society recently it was decided to increase this amount to $200,000, commencing 31st October, 1934. Also, there was turned over to the Society a reserve fund amounting to $602,000, which had been accumulating for some years.

In addition to the contributions made by the Bank to the pension fund society, the following points should be noted when the question of the welfare of our staff is under consideration:—

1. The variation in living costs between one locality and another does not entail a hardship on the officers stationed at the more expensive point as territorial allowances are granted to equalize the costs. For instance, a boy living away from home stationed in Montreal, on a salary of $900, receives an allowance of $250, whereas a boy on the same salary stationed at Galt receives $50, or at a country branch in the West $200.

2. In addition to salary increases, which in the cases of junior clerks are granted semi-annually and senior clerks annually, the Bank has until recently granted bonuses in varying amounts to offset fluctuating living costs. In 1918 married officers on salaries up to and including $2,000 received a bonus of 12½ per cent in May and a further 12½ per cent in November. In 1919 the bonuses granted to officers in this category amounted to 35 per cent. Of recent years the bonus was 5 per cent and 6 per cent and was discontinued in 1931.

3. The Bank contributes $15,000 annually to the staff group insurance scheme.

4. We encourage our officers to avail themselves of the opportunity for study under the courses offered by Shaw Schools Limited and Queen's University and in the event of their passing, their tuition fees are returned to them, plus a gratuity.

5. Our staff are transferred to branches within and without Canada without expense to the employees. By this means they obtain a wider outlook and more varied experience and increased remuneration often follows a transfer with promotion. For the year 1933 travelling expenses amounted to $81,470, involving 1,390 officers, an average of $58 for each transfer.

6. In addition to their salaries and allowances, our tellers receive a risk allowance of $100/200 annually.

The Bank also defrays income tax payments for its staff, computed on the 1930 tax basis, the staff absorbing the increase in taxation.

Our staff have at least two weeks' holidays in the summer, or three weeks in the winter, with full pay, each year, and in cases of illness they are granted leave of absence with full salary for a period dependent on length of service; in some cases the period of sick leave, on full pay, has exceeded one year.

At several branches in the larger centres the staff are supplied with a free lunch.

The postage on the personal mail of members of the staff is paid by the Bank.

The Bank defrays in certain cases the major portion of the membership fees in the Y.M.C.A. and the Y.W.C.A.

Bank "B"

All male members of the staff are admitted to the pension fund society at the age of 21 on passing satisfactory medical examination.

Each member of the staff contributes to the Fund 4 per cent of his salary, payable in equal monthly instalments, and a lump sum is contributed by the Bank each year equal to 6½ per cent of the salaries of the officers admitted to participation in the fund. In the case of an officer having a salary exceeding $7,200 per annum, no contributions are payable in respect of the portion exceeding that amount.

1. *Living Allowances.*—(Made to equalize varying costs of living in different localities.)

Ontario	$ 50-$400 per annum
Quebec	$100-$300 per annum
Prairie Provinces	$100-$500 per annum
British Columbia	$100-$300 per annum

2. *Bonuses.*—In normal times it is the practice of the Bank to grant bonuses in addition to the annual revision of salaries, the minimum being $25 in the case of female clerks and junior officers, other branch officers receiving from $50 up to $500, according to position.

3. *Group Insurance.*—All male members of the staff over twenty-one years of age and all female members of the staff after two years' service are eligible for participation in the Bank's group insurance plan.

The staff contributes $\frac{3}{5}$ and the Bank $\frac{2}{5}$ of the annual premium.

If an officer is granted leave of absence on account of ill-health or for any other reason, with or without salary, he will be considered as continuing in the service in order that his group insurance may be continued during his unavoidable absence.

In the case of total and permanent disability before the insured attains the age of sixty years, the insurance will be paid in one lump sum to the insured instead of to the beneficiary upon the insured's death, or the insured may elect payment by monthly instalments with interest, in which case, should death occur before the full amount of insurance has been paid, the beneficiary will receive the balance.

4. *Banking Study Courses.*—The Bank advances to members of its staff, who enroll for the banking study courses conducted by Shaw Schools and Queen's University under the auspices of The Canadian Bankers' Association, up to $40 of the $50 fee, accepting repayment in small monthly instalments. This enables students to save $5 on each course, as the cost is $5 extra if Shaw Schools and Queen's University are required to accept payment in instalments.

The fees are refunded in full by the Bank to all students who successfully complete the courses and, in addition, a bonus of $25 is granted to those who obtain honour standing.

5. *Cost of transfers to various branches without expense to employees:*—

	Total Cost	Average Cost
1931	$14,247	$41.41
1932	5,895	25.52
1933	5,134	24.56

Average expenditure per capita per annum on behalf of branch managers and other officers transferred, for the years 1931, 1932 and 1933, $32.

6. *Illness.*—If an officer, who has served less than five years, becomes ill and is unable to attend to his duties, the general practice is to pay full salary for three months and, if he is unable to return at the end of that time, half salary for a further period of three months.

If an officer, who has served five years or more, becomes ill and is unable to attend to his duties, the general practice is to pay full salary for six months and, if he is unable to return at the end of that time, half salary for a further period of six months.

7. *Holidays.*—Members of the staff are paid full salary during their absence on vacation, the following periods being granted:

Officers having twenty years' service and over—One month if taken during the first four months of the year, or three weeks at any other time of the year;

All other members of the staff, male and female, except very junior clerks who have only been in the service a short time—Three weeks if taken during the first four months of the year, or two weeks at any other time of the year.

8. *Lunches.*—Free lunches are provided for the staff at several of the larger points.

9. *Recreation.*—The Bank makes an annual contribution at a number of the larger points for recreational purposes, enabling the staff at these points to arrange social functions and to obtain recreation at greatly reduced cost.

10. *Income Taxes.*—All salaries are paid free of income taxes.

BANK "C"

The pension fund covers insurance, disability pension, superannuation pension, widows' and orphans' pension.

Contribution: Staff 2% of salary from age 21
5% of salary from age 25 to date of superannuation.
Bank 5% of salary from age 25 plus special contributions.

Total Contributions, from inception of fund to 31 May, 1933:

By Staff	$3,900,000
By Bank	5,800,000
Balance transferred from absorbed banks (contributed by staff and banks)	2,150,000
	$11,850,000

Living Allowances.—Living allowances of $100 to every single officer and $150 to every married officer in receipt of a salary of less than $2,000 plus allowance are paid in Halifax, Saint John, Quebec, Montreal, Toronto, Winnipeg, Regina, Saskatoon, Edmonton, Calgary, Vancouver and Victoria. Special living allowances are also granted to the staff at branches in pioneer mining districts and the like.

Staff Rooms.—At many of the branches, particularly in the West, staff rooms are provided without charge, preference in their occupation being given to the junior members of the staff.

Luncheon.—Luncheons are provided free of charge at Toronto, Hamilton, Montreal, Winnipeg and Vancouver.

Group Insurance.—This scheme was commenced in 1925 with maximum age about 60, the Bank paying the premiums according to age each year, the

staff paying a fixed amount each year regardless of age. $6 per thousand at age 21, $7.20 per thousand from age 35. Insurance runs from $1,000 to $10,000, according to age, and may be continued by members if they so decide when they go on pension. Until the oldest members reach normal expectancy of life it is impossible to say what proportion the Bank will be called on to pay, but in 1934 the premiums paid by the Bank amounted to $175,892, towards which the contributions made by the staff provided $131,253, the difference, $44,639, about 25 per cent, being absorbed by the Bank.

Group Accident and Sickness Insurance.—For the protection of the inspecting officers and other officers travelling for the Bank in the performance of their duties, accident and sickness insurance is carried, paid for by the Bank, ranging from $7,500 for single men to $15,000 for married men.

Bonuses.—As a general rule bonuses are paid in June to officers whose salaries have reached a maximum for the time being but these have not been paid since 1930. Usually a percentage bonus is paid in December of about 5 per cent of salaries. The last bonus of this kind was paid in December 1929.

Driving Expense.—Where a manager or any other officer uses his motor car for bank duty, he is fully reimbursed on a mileage basis.

Banking Studies.—These are carried on through arangements made by the Canadian Bankers' Association for regular courses with Shaw Schools Limited and Queen's University, also for a special course with professors of Toronto University. The Bank assists students by loans and refunds all fees to those who successfully pass the examinations, granting them as well a bonus of $25/100 in each case.

Travelling Expense.—All cost of transfers to various branches, either in or out of Canada, is paid by the Bank and allowances are made for losses due to discarded furniture, etc.

The average expenditure per capita of officers transferred during the past five years was $67.

Retiring Allowances.—These are paid to girls retiring from the service to marry and to all officers, including women, retiring on account of ill-health. Allowances in recognition of long and faithful services are also given on retirement, according to the circumstances of each case. The total of these allowances paid during the last fiscal year was $50,480. For 1929, $94,437.

Sickness.—Full salary is paid during illness as a normal procedure and in some cases has been continued for as long as two years. Where illness is protracted and service relatively short, full pay is given for a while and then half pay. No definite rule has been made but one month's sick leave for each year of service is regarded as sufficiently generous.

Furloughs.—Two to three weeks holidays annually on full salary, according to length of service and season of the year. Three months' leave of absence on full salary granted for special purposes such as travel abroad, after not less than ten years' service. This is not an absolute right, but depends largely on the staff situation from time to time. These leaves, however, have been granted very freely in the past and even in the last year or so have been allowed for family reunions and the like.

Income Tax.—All income taxes on their salaries are paid by the bank for all members of the staff.

Bank "D"

The pension fund society was organized for the protection of the members of our staff who, on account of age or state of health, are forced to discontinue working after a period of years of attendance with the Bank, or their immediate dependents in case of death.

The pension fund is so organized that employees do not contribute to it. Its revenues consist of annual contributions made by the Bank and the income from the investment of its capital funds accumulated over a period of years.

There is no age limit at which an employee shall retire on pension.

There is no fixed manner of calculating the amount of a pension. It has been customary, however, to establish it at one-fiftieth of the yearly salary at time of retirement of the employee, multiplied by the number of years of service, but the directors of the fund are at liberty to grant more or less than the amount thus established, according to the circumstances in each case.

Apart from the protection above referred to, the pension fund society also maintains on the life of its members a certain amount of life insurance under a group insurance system. The amount carried for each member is determined according to his salary and years of service with the Bank. The minimum is $1,000, and the maximum $10,000. The premium paid to the insurance companies is partly paid by the employees and partly by the society; the proportion contributed by the members is about fifty per cent.

Other Remuneration.—The Bank reimburses the entire fees to the employees who successfully complete special banking courses.

All expenses incurred by an employee on account of his transfer to another branch are reimbursed by the Bank. The cost of such transfers represents an outlay of about $20,000 per annum to the Bank, or approximately $15 per employee.

It is customary for the Bank to reimburse its managers and other officers for the expenses of all trips made in the interests of the Bank.

A few years ago, the Bank discontinued granting living allowances, but this does not prevent a readjustment of salary when an employee is transferred to a locality where the cost of living is distinctly higher than in the place from which he comes.

(e) *Restrictions Upon Marriage of Employees*

Bank "A"

Officers on salaries below $1,500 per annum must obtain the Bank's consent before marriage. When marrying upon a salary below $1,500, the contracting parties must be able to show that they are possessed of private means, either owned or guaranteed, sufficient to return an annual income, including salary, of $1,500.

Bank "B"

The rule is that officers are not permitted to marry on a salary of less than $1,500 per annum, exclusive of allowances, but requests prior to marriage for some modification of the rule are given careful consideration and permission granted where special circumstances exist which appear to justify exceptions being made.

Bank "C"

Officers are not permitted to marry on a salary of less than $1,200 per annum and are enjoined to consult the Bank respecting their prospects when salary has not reached $1,500. This rule has not been changed for many years but has been relaxed in practice during the last few years owing to changed conditions.

BANK "D"

No restriction. The Bank, as a matter of policy, does not encourage a young employee to get married before he has a salary deemed sufficient to meet matrimonial obligations.

(f) *Proportion of Employees' Contributions to Pension Fund Returned When a Bank Employee is Dismissed*

BANK "A"

When an officer resigns or is dismissed from the service, he receives one-third of his contributions to the pension fund.

BANK "B"

When an officer resigns or is dismissed from the service, no refund is made in respect of his contributions if such officer has contributed for less than five years, but if he has contributed for

5	full years,	50	per cent of his contributions	are returned	without interest
6	"	55	"	"	"
7	"	60	"	"	"
8	"	65	"	"	"
9	"	70	"	"	"
10	"	75	"	"	"
11	"	80	"	"	"
12	"	85	"	"	"
13	"	90	"	"	"
14	"	95	"	"	"

and if he has contributed 15 or more years, his contributions are returned in full without interest.

BANK "C"

Since July, 1926, one-half of an officer's contributions have been returned to those voluntarily leaving the service, but the rule has been broadly interpreted and actually refunds have been made even when an officer is dismissed. We can recall no exceptions. In the case of senior officers retiring whose contributions have not been made throughout their service on the basis now required the refund is made by the Bank as part of a retiring allowance.

BANK "D"

None, as employees do not contribute to the pension fund (see page 741, under 'Bank "D"').

(g) *Age at which superannuation becomes effective*

BANK "A"

Officers retire on pension at the age of sixty-four. In cases of ill-health, however, officers may retire at an earlier age, but no officer with less than ten years' service is eligible for pension.

BANK "B"

The period when an officer may receive an annuity or pension is decided in all cases by the Board of Directors. As a general rule, however, no pension shall be granted unless the officer shall have completed not less than ten years

of continuous service in the Bank subsequent to his admission to participation in the Fund, and no pension shall be granted to an officer unless he has attained the age of sixty years or is incapacitated for further service by ill-health or affliction.

Subject to the rules and regulations, an officer who has been in the continuous service of the Bank for ten years and upwards, exclusive of any service prior to his admission to participation in the Fund, and who has completed the sixtieth year of his age (or is incapacitated for further duty by ill-health or affliction) shall be eligible for and entitled to a pension on retirement.

An officer on attaining the age of sixty-five shall retire, unless for special reasons the Board of Directors may wish him to continue and he consents thereto.

BANK "C"

Superannuation becomes effective on disability for further bank work or at age 60. Some officers are carried beyond that age but only at their own request.

BANK "D"

No fixed age (see page 741, under 'Bank "D"').

(*h*) *Proportion of employees' contribution to pension fund payable on superannuation*

BANK "A"

A pensioner is entitled to an annual pension of one-fiftieth of his salary, at the date of superannuation, for every year of his service in the Bank while a member of the pension fund society, up to but not exceeding thirty-five fiftieths. Maximum pension, $5,000.

On the decease of an officer or pensioner his widow is entitled to half her husband's pension, to be paid until her death or until re-marriage, when, if there are any minor children, the amount of her pension is paid for their use until coming of age.

BANK "B"

The pension allowed to each officer is on the basis of one-fiftieth of his salary at date of his becoming entitled to a pension for each year of his service, exclusive of any service prior to his admission to participation in the fund, the maximum pension not to exceed thirty-five fiftieths of an officer's salary or thirty-five fiftieths of $7,200 in the case of an officer whose salary is in excess of that amount, and no pension shall exceed $5,000 per annum.

The widow of a deceased officer receives half the pension to which her husband would have been entitled, which ceases on remarriage, in which case, or upon her death, her pension is payable to the children, if any, of the deceased officer in equal shares until the age of eighteen is reached in the case of a boy and twenty-one in the case of a girl or if she marries under that age.

The widow of a pensioner, who shall have been married to him after he became a pensioner, shall not be entitled to any pension. The widow of an officer shall not be entitled to a pension if she shall have been at the time of her marriage to him more than fifteen years younger, but the Board may, in such cases, grant a pension to such widow if they see fit.

BANK "C"

There is a definite relationship between a member's contribution to the pension fund and the amount he receives as pension on superannuation inasmuch as both are based on salary and years of service. There is not an

absolute relationship of the individual's total contribution and his total pension payments as the amount of the latter will depend on the date of the death of himself and wife and the ages of their children if any. Taking members as a whole, however, they have contributed and are contributing materially less than 50 per cent of the amount required to produce the benefits provided by the fund as indicated by the figures given under (d) (see page 7).

Pensions on superannuation are one fiftieth of the average salary for past ten years for each year up to 35 years' service over the age of 21, maximum pension $5,000 per annum. If disabled before 60 the average salary is that between 50 and the age of disablement. If 50 or earlier then pension is fixed on salary at time of disability. Those without widows or children are covered by the insurance feature of the fund.

During the first year of retirement on pension an allowance is paid by the Bank which, together with the pension makes up the full amount of his former salary for that year and longer in the occasional case. Widows' pensions are usually augmented by annuities paid by the Bank according to individual needs.

Retiring Annuities.—In the case of temporary clerks, women and others of long service, retiring annuities are granted by the Bank. Total amount of these annuities to pensioners and others for the last fiscal year $270,986.

BANK "D"

Employees do not contribute to pension fund (see page 741).

(The Committee then resumed consideration of Bill 18, An Act respecting Banks and Banking.)

HOUSE OF COMMONS,

May 15, 1934.

The Select Standing Committee on Banking and Commerce met at 10 o'clock a.m. Mr. Hackett, Vice-Chairman, presided.

Mr. WARD C. PITFIELD, called.

The ACTING CHAIRMAN: I will read the amendment proposed to section 166 (1):—

> Every person using the word "bank," "banker," or "banking," or the words "investment banker," "savings bank," "banking company," "banking house," "banking association," or "banking institution," either alone or in combination with other words, or any word or words of import equivalent to any of the foregoing in any foreign language, in a sign or in an advertisement or to describe his business or any part of his business, without being authorized so to do by this Act, or by some other Act of the parliament of Canada, is guilty of an offence against this Act.

Mr. Ward Pitfield, of Montreal, is the president of the Investment Bankers' Association of Canada. After a meeting of the committee a week ago the chairman, in deference to the express wish of the committee, requested Mr. Pitfield to come before the committee to-day to express his views and those of his associates on the suggested amendment.

Mr. IRVINE: Is he a manager or director or owner of a banking institution?

The ACTING CHAIRMAN: You can ask him that.

The WITNESS: As president of the Investment Bankers' Association of Canada, I should like to communicate for consideration by the committee the following observations with reference to the proposal that the Bank Act should prohibit the use of the term "Investment Bankers" by dealers in investment securities.

A brief history of the Canadian bond business is contained on page 27 of the Report of the Royal Commission on Banking and Currency in Canada, 1933, in chapter 2, The Historical Sketch of the Financial Institutions of Canada, section 9, under the heading "Investment Bankers."

As there noted, when the Great War cut Canada off from London as the source of supply for capital funds, Canadian borrowings and issues of securities had to be made chiefly in the United States.

In the early days of the business, issuing houses, that is to say underwriters or purchasers of securities, government, municipal and corporation, were generally known in Canada as bond dealers. They were the houses which generally found capital for those who wanted it. They were called bond dealers to distinguish them from brokers, which was the name given to members of the stock exchanges who bought and sold as agents for members of the public, shares and in some cases bonds already on the market but who took little if any part in the process of providing capital in the first instance.

Therefore the function of the bond dealer in Canada was similar to the function performed by private bankers and institutions of that kind in Great

Britain, who though not banks of deposit or of issue were bankers in the sense of being persons who provided capital by loan or through the purchase of bonds or shares when it was needed by public bodies or by private corporations.

The term "Investment Banker" was not in common use in this country as descriptive of an issuing house or private banker dealing in securities until it became a general practice to go to the American market for money for Canadian requirements. As business in securities increased between Canada and the United States, it became evident that the term "bond dealer," which was not used in the United States, was sometimes understood there as referring to a dealer or issuer of indemnity or guarantee bonds rather than a person dealing in investments, and the term "investment banker," which was in general use in the United States to designate an issuing house or dealer in investment securities as distinct from a stock broker, gradually came into use in Canada with the same significance.

The association known as the Investment Bankers' Association of Canada is a voluntary association which was formed in 1916 and was originally known as the "Bond Dealers' Association of Canada." Its membership of 32 at formation included the majority of the larger firms engaged in the purchase and distribution of securities in Canada.

As the term "investment banker" had gradually replaced the term "bond dealer" as descriptive of the members of the association, it was decided in 1925 that the name of the association should be changed, and since that time it has been known as the Investment Bankers' Association of Canada.

I should perhaps add that one reason for giving up the use of the term "bond dealer" was that it was not descriptive of the actual business carried on, for investment securities of all kinds, shares and stocks as well as bonds, were commonly underwritten or bought by financial houses.

Investment Bankers Association of Canada now has a membership of 101, with 18 branch memberships. Through its executive committee and 8 subcommittees the association performs a useful public function in protecting the interests of investors as well as investment houses, and also it is providing a convenient channel of communication between investment dealers, members of the Association and others, and the Federal government in connection with its financing as well as with provincial governments in relation to their efforts to regulate and improve conditions in the business of the distribution and sale of capital issues.

The term "Investment Banker" has acquired a definite meaning in the United States. It has also acquired a definite meaning in this country in connection with the same business, that of the distribution and sale of investment securities. Commercial banking in Canada is carried on by the chartered banks alone under the Bank Act and they are known as "Banks."

It is difficult to see how there can be any real danger of confusion between the term "bank" and the term "investment banker." I have really nothing to add, gentlemen, except to say that the term is a general term. It is rarely used in the advertising of any of the members of the association. We notice it sometimes on the windows and signs of not individual members of the association but other dealers engaged in the investment bond business and securities business who are not members of our association.

I have been engaged in the bond business for twenty-five years, and I honestly do not know of any case in which the business in which we are engaged has been confused with the business in which the banks are engaged. We have spent—it works out at about ten years—in the formation and organization and carrying on of our association, and I really think it would be really a nasty thing to have the name changed at the present time. That is really all I have to say.

[Mr. Ward C. Pitfield]

Mr. IRVINE: Mr. Chairman, the witness said that the term "bond dealers" was not sufficiently descriptive because they, the bond dealers, provided capital for loans. Where do they get the capital for loans if they do not take deposits of any sort? Is that just the personal property of the company, or what is the source of their capital?

The WITNESS: The source of capital, of course, of a dealer in investment securities is primarily his own which he uses in his business; secondly, the capital that he may borrow from the commercial banks on the inventory of securities which he may be carrying in the same way as any other merchant would do; and, thirdly, his capital is augmented in one way by the rapidity of his turn over of the securities which he is buying and selling.

A bond dealer or investment banker, I should say, gentlemen, is an underwriter of securities, in that he guarantees the subscription sometimes of a given issue by the public. He is a purchaser of securities because he makes a definite bid for an issue of securities and pays for them; in other words, he is a broker.

By Mr. Baker:

Q. He is in no sense a banker?—A. I took the trouble to look up the definition of a banker in the Encyclopædia Britannica.

Mr. IRVINE: That is no authority here.

The WITNESS: If it is of any interest I will read it.

Mr. COOTE: Let us have it on the record anyway.

The WITNESS: This is the definition as found in the Encyclopædia Britannica:

> Banker, a dealer in credit; one who operates a bank or a banking house through the use of the credit and funds of both himself and others. The term is often used in a very broad and loose sense to apply to capitalists, financiers, investment bankers, commercial paper bankers, stockbrokers, etc. Strictly, however, it should apply only to the credit merchant when he uses the credit and funds of others. If he uses only his own credit and funds he is a capitalist; if he engages in the organization and financing of business and the handling of their securities he may be a financier promoter or broker—

An investment banker uses not only his own funds, his own capital, but uses the credit which may be available to him for borrowing from commercial banks or from private sources, and he also uses his ability and his rapidity to make his turnover.

Mr. WILLIS: Might it be permissible, Mr. Chairman, to indicate to Mr. Pitfield why this amendment is being brought in so that he may make a reply if he cares to.

The ACTING CHAIRMAN: Quite.

Mr. WILLIS: Those sponsoring the amendment feel, that because in the old Act we forbid the use of the word "bank", we forbid the use of the word "savings bank" in a foreign language; we forbid the use of the word "banker"; we forbid the use of the word "private bank", therefore, it seems that in order to be consistent we should also include the word "banking" itself. The present limitations have been indicated, but for consistency we feel that the word "banker" should also be added.

Secondly, in order to be fair to those who operate in this country what are known as banks, we forbid, for instance, the Province of Ontario to use the word "banks" in connection with its savings offices. If the Province of Ontario desired to use the word "banker" in another language it would be forbidden. We give to the banks a charter, and because we exercise a distinct control over them we

allow them to use the word "bank". It is assumed, I should say, by the ordinary person on the street, that the word "banker" assumes the business of a bank, the existence of a bank controlled by that person who calls himself a banker. We do that in order that people may not be misled. That is to say, by using the word "banking" it gives them a sense of security which is not present.

Mr. Pitfield has intimated that the Investment Bankers' Association cannot control the use of the words "investment banker"; that Al Capone can come to this country and use the words "investment banker" if he so desires.

Mr. JACOBS: No, he cannot, he is in jail.

Mr. WILLIS: Mr. Jacobs is entirely incorrect, because he could do so after eleven and a half years.

Mr. JACOBS: Let us deal with that when we come to it.

Mr. WILLIS: Well, Mr. Jacobs himself might call himself an investment banker. In any event, my point is that the Investment Bankers' Association does not control the use of the words "investment banker" and, therefore, anybody could use it.

The amendment is sponsored because we want to carry out the spirit of that which was intended when the Bank Act was previously amended. I do not think the investment bankers do it wittingly, but any man knows they evade the spirit of Section 166 of the Act when they use the word "banking", having been forbidden to use the word "bank" or "savings bank".

Perhaps more than anything else we desire that they should not use the word "bank", because we have no control over people handling investment securities; we have no control over brokers. And, therefore, as we do control, to a degree at least, those who use the words "bank" and "banking" and "savings bank", and as we do not control those who use the words "investment banker" we think it advisable that we should include there the word "banker".

There is no prejudice at all, of course, against the investment bankers or the Investment Bankers' Association, but there is that feeling that in order to be consistent, to be fair, in order not to mislead nor to carry out the spirit of the Act we should do this because we do it in other cases where we exercise a control, as we do over the banks themselves.

I suggest also that the Investment Bankers' Association might very well be called "Investment Securities Association" because the witness has indicated that they deal in investment securities.

By Mr. Irvine:

Q. Mr. Chairman, I would like to ask the witness one question. The reputation of the banks is not very good in Canada. Do you think it would hurt your business to retain that name in the future?—A. Mr. Irvine, I did not come here really to discuss peoples' reputation.

Q. Not peoples' reputation, it is the banks I am talking about?—A. Well, the bank as a corporation under the law. I have no observations to make on the Canadian chartered banks except to say that the proof of the pudding is the eating of it and they are still doing business.

By Mr. Spencer:

Q. I would like to ask a question of Mr. Pitfield. He has outlined to us the work of an investment banker. Is there any of the work he has outlined not been done by the present commercial banks to a certain extent? Are they not covering a similar field more or less?—A. My impression is, the difference between a commercial banker and a dealer in bonds or stocks—in England there is no prohibition against the use of the word " banker," there is none in France. You see different displays in France and England on the windows and signs

[Mr. Ward C. Pitfield]

of various banking houses; they call themselves bankers yet they are not subjected to regulations for using or not using the word. I may be mistaken, but I do not think there is any prohibition of the word in the United States. It seems to me, that in Canada we single the banking fraternity out as needing regulations more than it does in other countries. But the difference between commercial banking and the business of a dealer in investments, or a banking house, a private banking house, in my opinion is that the commercial banks are banks of deposit; they are banks that make short term loans that cannot be called capital. They make loans, let us say, on inventories of raw material, manufactured goods, and on accounts receivable that turn over rapidly and, let us say, on short terms, 30, 60 and 90 days. A dealer in bonds, on the other hand, or an underwriter of a bond issue makes a loan for a long period of years, on the basis of 5, 10, up to 20 years, and he really provides capital whereas the commercial banker provides working capital. Is that a fair definition, Mr. Spencer?

Q. But the bankers do, I understand, handle bonds to a certain extent, to the extent at least that I believe the Investment Bankers' Association to which you belong rather objected, is that not so?—A. The Investment Bankers' Association and the banks themselves put briefs before the Macmillan Commission setting forth their views. If you like, I can refer back to that brief; it is here in my file. Would you like me to do that?

The Acting Chairman: That is all available to the committee.

The Witness: And the Macmillan Commission made certain recommendations which, I presume, will be considered by this select committee, and again by the house when the Bank Act is finally approved.

The Acting Chairman: Are there any further questions from Mr. Pitfield?

Mr. Coote: I would like to ask two or three questions, Mr. Chairman. I want particularly to ask Mr. Pitfield whether he can say anything further in support of the idea that the business he represents is really a banking business. Of course, that is the question we are chiefly concerned with here.

The Witness: I should think it is a banking business, Mr. Coote, because there are different kinds of banking business. There is the commercial banking business. In France, for instance, I think they have what they call exchange banks, and so on. And you have savings banks, and in some countries you have mortgage banks. And, as the Chairman has just remarked, land banks. I should say our business decidedly is a banking business, and if we were in business in Great Britain we would call ourselves private bankers or merchant bankers without hindrance of law of any kind.

By Mr. Baker:

Q. Do you discount commercial paper?—A. No.

Q. Is not that one of the prime functions in banking business?—A. My impression is it is the principal business of a commercial banking house but, as I understand it, there are various kinds of banks.

By Mr. Willis:

Q. Do you take deposits?—A. No, that is prohibited by the Bank Act.

By Mr. Jacobs:

Q. You take deposits and you turn over a bond, I suppose?—A. In cases we are paid in advance for securities, yes, but securities are earmarked against payments that are made.

Q. Is this association under supervision or licence by any board or authority?—A. The provinces, through their Security Frauds Prevention Act, regulate brokers and regulate dealers in investment securities.

[Mr. Ward C. Pitfield]

By Mr. Coote:

Q. You said in your evidence, Mr. Pitfield, that you had protected the investing public, or your association had. Would you tell the committee in what way you have protected it?

The Acting Chairman: Mr. Jacobs has the floor.

By Mr. Jacobs:

Q. You say you are governed by the Security Frauds Prevention Act?—A. That is correct.

Q. But not under Dominion authority?—A. That is correct.

Q. Well, as you know, the Dominion authority has jurisdiction over banks?—A. Yes.

Q. And you consider that you are sufficiently licensed by being under provincial authority?—A. Well, I can only put up a comparison to you Mr. Jacobs. There are no particular Security Frauds Prevention Acts in Great Britain, yet the ordinary statute law and the common law of the country is administered and when people do wrong they are put in jail.

Q. Not always, Mr. Pitfield; sometimes it happens by accident.—A. But the private banking firms in England are regulated by the ordinary statute law and the common law, and any offence which we commit makes us subject to that law. And, in turn, we are subject to the law here, because the law is passed by the Dominion parliament; but we are also subject to regulation by the security commission in the various provinces, for instance, Colonel Drew in Toronto; I forget the name of the commissioner in Quebec, and the regulations, I can assure you, are extremely strict.

Q. To strip it of all its frills, your business is simply of selling bonds to the public.—A. On occasion it is buying bonds from the public. It is really the business of dealing in bonds, preferred shares, debentures, investment securities, and underwriting.

Q. That applies to the selling, but you have agents throughout the country who solicit a certain range of clients or customers, and you buy in large quantities and sell them in small quantities?—A. That is correct.

Q. Well now, in no respect is your business really a banking business in the sense in which the Bank Act interprets banking?—A. That is rather a difficult question for me to answer because, frankly, I have not read the Bank Act in years until I read the new Act this morning. It is frankly my opinion—and I have stated before and I repeat it again—that we do a banking business in long term securities.

Q. The British North America Act declares that banking shall be under the jurisdiction of a Federal authority. You know that, do you not, Mr. Pitfield?—A. I know that, yes. We are not disputing any authority which may govern. I am merely advising you, sir, that we are subject to all sorts of authority and regulations.

Q. And this fanciful name came to us through Canada, not the United States or England.—A. When 30 per cent of your funded debt is held in a given market—

Q. I am referring to the name only.—A. The Canadian Investment Bankers are an agent or part of the distribution of Canadian securities in the United States. The United States holds roughly 30 per cent of our funded debt to-day. It is obvious, in dealing in that market that the terms used in that market are creeping into this market, and the Canadian dealers work in that market—

Mr. Jacobs: That means, they take the snuff in New York to-day and we sneeze in Canada to-morrow.

[Mr. Ward C. Pitfield]

By Mr. Coote:

Q. Mr. Chairman, might I now ask Mr. Pitfield a question? In what way is your association protecting the investing public in Canada?

Mr. Ernst: Mr. Chairman, we are enquiring only into the propriety of the use of this name.

The Witness: I have no objection, Mr. Chairman, so long as the patience of the committee stands it, to sit here all day. This association comprises, Mr. Coote, practically every, or the majority—and the very substantial majority—of dealers in investment bonds and securities in Canada, and it is subject to the regulations of an executive committee which has members from coast to coast. It has eight special committees which deal with different functions of the business, and these committees and the members of the fraternity are working together very closely all the time. We also work very closely with the Provincial authorities who regulate our business, and when matters of public interest come up, and when our advice, or our work or utility can be of any assistance, the association offers its services, and performs services which are useful to the community and to itself.

Q. Have you with you a list of the members of your association which you could give to the committee?—A. I regret I have not one here, Mr. Coote. I have one in my room, and I would be glad to file it with the secretary of the committee.

Q. The reason that I ask you that question is, that I am sure the committee is very anxious to protect the investing public. We have spent a lot of our time in this committee, I think, on that very point, and I have been handed a letter put out by an investment banking company or house in Toronto sometime last year, and I would just like to read one paragraph from it. He is quoting the words of a president of a well known Life Insurance Company, and this is what he says:—

> In general, the financial and industrial leadership in Canada has differed only in degree from the depredations of the Robber Barons of Medieval Europe, the Brigands of Tartary or other ungodly country, the Corsairs of Algeria or the Pirates of Penzance.

Now, we know that the Canadian banks are very well regulated; they are, no doubt, the leaders in finance in the financial world, and you are telling us that the Investment Bankers' Association have protected the Canadian public; but we are continually receiving complaints from the public that they have been mulcted of their savings, that their money has been taken from them by investment—I heard them say bankers—by somebody who is dealing in investments in Canada; their savings have simply disappeared. I would like to ask you something about the securities which investment bankers, take your house or any other house, have underwritten; you say that is one of the chief duties. Have you any pulp and paper securities—

Mr. Ernst: I do suggest, Mr. Chairman, that it may well be what Mr. Coote is inquiring about is proper matter for an inquiry in the proper place, but I say that it is not before this committee. We are dealing only with the question of this name, whether they have the right to use the name or not, not whether they have underwritten worthless securities.

Mr. Irvine: Whether or not they have the right depends upon what they are doing, and we want to find out what they are doing.

Mr. Ernst: I submit that this committee is not the place for that, and I will press my point of order.

The Acting Chairman: Mr. Coote, have you anything to say to the point of order.

[Mr. Ward C. Pitfield]

Mr. COOTE: I certainly have, Mr. Chairman. We are here discussing a very important question, whether anyone outside of the banks named in this bill should have the right to use the term "bank" or "bankers," or words to that effect. Surely the operations of those who have been using the term "bankers" should be the determining factor in this committee, that is, if we consider that the word "bank" or "bankers" is something that is to be protected by legislation. If that is not a proper thing for us to investigate I cannot see why we have a committee sitting here at all. I really think that the point of order raised by the honourable gentlemen is the most far-fetched point of order that has yet been brought before this committee. This committee, as a matter of fact, I think has agreed to go a lot farther than I am doing at the moment, to enter into the investigation suggested by Mr. Power as to the relation between the banks and the pulp and paper companies, the extent to which uncontrolled expansion of credit brought about over capitalization and so on. The witness is one of the bankers engaged; he is an old investment banker; he is president of the Canadian Investment Bankers' Association, and I think he is one of the best witnesses that we could get to give us information on that point. I certainly think, Mr. Chairman, that I am in order in asking Mr. Pitfield any questions that I have asked up to this time.

Mr. ERNST: Just one observation in reply. The general *modus operandi* of the investing business, of course, is a proper question for inquiry, but the particular method of operating, whether they have underwritten worthless securities or valuable securities, I submit, is not now pertinent to this committee. We at the moment are inquiring into only one question: Shall section 166 be amended or shall it not? We are not dealing with the general terms of reference to which Mr. Coote has referred, and I do suggest to the committee that if we are ever to get out of here we must stick to the terms of our inquiry, and I would ask you, Mr. Chairman, for a ruling.

Mr. SANDERSON: I would like to ask Mr. Pitfield a question.

The ACTING CHAIRMAN: We are disposing of the question.

Mr. SANDERSON: I think it has something to do with this.

The ACTING CHAIRMAN: If you wish to address the chair on the question of order we will be glad to hear you.

Mr. SANDERSON: Well then I will address the chair on the point of order, but I would like to ask Mr. Pitfield if he considers—

The ACTING CHAIRMAN: That is not the point.

Mr. SANDERSON: What I am trying to get at is this, Mr. Chairman: Let us be very frank about this. I take it from the remarks of Mr. Pitfield, that he considers he is a banker and a broker, and a promoter, and the companies that he is connected with, and the companies that he is representing here, according to him, are bankers and brokers—

Mr. ERNST: Investment bankers.

Mr. SANDERSON: No, he said bankers, promoters and brokers.

The ACTING CHAIRMAN: I do not think that is pertinent to the question.

Mr. POWER: He has not come to his argument yet, let him speak.

The ACTING CHAIRMAN: The question as put forward by Mr. Coote may be a proper subject for investigation under one of Mr. Power's resolutions, but the question which is before us this morning is whether or not the term "investment banker" may be confused with the term "bank" as used in the statute, and I shall maintain the objection of Mr. Ernst.

Mr. SPENCER: Mr. Chairman, might I ask, when we are discussing Mr. Power's resolution will we have the power to call Mr. Pitfield as one of the investment bankers?

[Mr. Ward C. Pitfield]

The Acting Chairman: I would think so.

Mr. Coote: Mr. Chairman, I wish to appeal from your ruling.

The Acting Chairman: Gentlemen, we normally meet at four o'clock—

Mr. Coote: Do you formally rule that I was out of order?

The Acting Chairman: Yes.

Mr. Coote: Then I appeal from your ruling.

Hon. Mr. Morand: I move we adjourn.

Mr. Coote: Let us dispose of this question first.

Hon. Mr. Morand: I move that we adjourn. That takes precedence over anything else.

The Acting Chairman: A motion to adjourn is in order, but I think we had better settle this question. The question is on the appeal from the chair. Those who are in favour of sustaining the chair will please stand.

(Appeal from ruling of chair sustained by vote of nine to six.)

The Acting Chairman: We normally meet at four o'clock, and it will be necessary to find another Chairman, at least for a few minutes this afternoon, because I have to be at the Supreme Court, or if you care to meet at half past four, it will be equally satisfactory.

The Committee adjourned at 1 p.m. to resume at 4.30 p.m.

AFTERNOON SITTING

The Committee resumed at 4.30 p.m.

The Acting Chairman: Will the Committee come to order? We will continue with the examination of Mr. Pitfield. Are you ready, Mr. Coote.

W. C. Pitfield, examination continued.

By Mr. Coote:

Q. I have not very much further examination to make, Mr. Chairman, but I can go on with what I have. I would like to have a look over the list of members of the association which Mr. Pitfield represents, but I would like to ask Mr. Pitfield if he could tell us, approximately, how many flotations of new issues his firm has put out say in the last five years; I would like to ascertain the amount of business of that nature which is transacted by some of the prominent houses?—A. I think in the last few years, Mr. Coote, there have been comparatively few new capital issues except those for the account of governments or municipalities. With declining earnings in the bigger corporations the market has not been at all favourable.

Q. There were quite a number put out in the years from 1925 to 1929?—A. Yes, a great many.

Q. Or from 1923 to 1929?—A. Yes.

Q. Could you say off hand, Mr. Pitfield, how many flotations were put out by your company which were necessary to make some rearrangement between the company and the bondholders or the security holders?—A. I think there are two, perhaps three out of a total of twenty-five.

Q. Did your firm underwrite any of the pulp and paper securities or corporations connected with the Dominion Power and Paper?—A. No. You mean the Canada Power and Paper.

Q. Yes?—A. No.

Q. May I ask, is the Dominion Securities a member of your association?—A. Yes.

Q. And Wood, Gundy & Company?—A. Yes.

Q. Do you think, Mr. Pitfield, that a great part of the public are more apt to trust to your judgment as to the value of securities because you use the word "banker"?—A. No, I frankly do not. I think perhaps at one time the word "bank" or "banker" may have conveyed a feeling of a great deal of trust, Mr. Coote, but I gather, after listening to or reading the testimony arising out of the investigations in the United States that the use of the word "bank" or "banker" perhaps has not now the same standing that it had.

Q. Well, might I ask do you consider that it is of value to the members of your association to be allowed to use the word?—A. I do not think the word "banker" would help us in the least, because not only would it be misleading but it would be inaccurate. I think the words "investment banker" have been in such constant use for such a length of time and in so many markets in which Canada must deal—because we cannot deal solely within our own small market itself—that the use of the words is worth something to us.

Q. What I meant to ask was, do you consider the present phrase which you are allowed to use "investment banker" as being worth something to the members of your association?—A. I think frankly it is, yes.

Q. And would you consider it was in the nature of a loss if any amendment to the Act prevented you from using that term?—A. I should not be here at the request of my associates if I did not.

Q. I think that is all I have to ask, Mr. Pitfield.—A. Might I just make one further answer to Mr. Coote. We have had this association in Canada for some nine or ten years, to be exact, and its predecessor association for some years prior to that, and I think it has acquired a very substantial amount of good will in that time. The association seems to be welcomed in co-operating with the provincial governments and Dominion government, and other public bodies.

Q. If I might ask another question, has your association any power to discipline, in any way, the members of the association, or to in any way supervise or regulate the business they do, or to set any standard as to the securities which they offer?—A. We have no legal power, and frankly we have discussed incorporating to acquire such power, but the more we consider it the more we feel that our Business Conduct Committee, acting privately and quietly, can accomplish just as much good as a committee or a company that had legal power to discipline its members. I presume you know, Mr. Coote, how the bank interests of England are dealt with and so on, that the Bank of England intimate that so and so should be done or so and so should not be done, they have no law to govern that.

Q. I know very little about that.—A. I mean that is a fact in the British market, which seems to be the best regulated of any; its customs govern it in the words of the Bank of England and authorities of that kind.

Q. There is a general opinion, Mr. Pitfield, that some of the companies that belong to your association have floated securities which should never have been floated, and the last two or three questions I have directed to you have been with regard to that very matter. I am not raising a question as to any securities that have been floated by your own firm, I do not happen to know, but may I ask you this: Do you sell the bulk of the securities which you handle to the financial houses including insurance companies, or do you sell them direct to the general public?—A. Our markets go all the way from insurance companies to the general public and they cover Canada from coast to coast, the West Indies, the United Kingdom, and even France, Switzerland, Holland, and so on.

[Mr. Ward C. Pitfield]

Q. Would you care to pass an opinion as to whether insurance companies and financial houses provide the bulk of the business or does the general public? —A. It is rather difficult to answer without statistics.

Q. I was only asking if you had general information?—A. For gilt edge securities I should think decidedly financial institutions and insurance companies, and particularly recently when institutions have been purchasing mostly government securities during a period of depression; I should think in normal times or in these times the public take much more interest in yields, I mean a generous yield rather than a low yield with more interest, with the idea of profiting by an investment in corporation securities, I should think decidedly the public buys more corporation securities to-day.

Q. Well, I had that idea myself, and it seems to me the public have taken the bulk of the loss in the drop in value of securities in the last few years, and I was going to ask you whether, because of that, you thought it was time that some attempt was made to regulate investment banking, if you like to use that term in a manner that up to this time has not been attempted?—A. Well, talking about attempting to regulate investment banking, as a matter of fact it is regulated and supervised to-day by your various Blue Sky laws, we call them that; I presume you call them that; it is governed by your statutory law and your common law, and, in so far as I would think, is regulated sufficiently, Mr. Coote. You cannot legislate a person into Heaven, and you cannot legislate against people taking a loss in securities, in purchasing with declining values and declining earnings and so on, can you, any more than you can prevent a bank making bad loans during that period.

Q. Well, the banks have a way of recouping themselves which the general public do not seem to have; and I have in mind one particular issue, and I will only take a minute or so on this, Mr. Chairman,—the case of the refinancing of P. Burns & Company in which, I think, something like $7,000,000 in securities were sold to the general public. I have had many complaints about it, and many people have written to me asking that I should endeavour to have that issue investigated by this committee. I understand the securities were floated by a member of your organization, and the public are being mulcted out of their savings, and I am just asking you whether with your experience you thought that perhaps we could do something in the way of regulating an issue of those securities?—A. I do not see how you could regulate those things, Mr. Coote, and I am being perfectly honest and frank with you just as I would be doing anywhere. Securities are issued at a time when people are making money, when conditions generally are very good, and they are distributed amongst hundreds of people, based on their judgment confirmed by others at the time of purchase. The Burns Securities, I am satisfied, were issued in perfectly good faith. The Burns business has been one of the finest businesses we ever had in Canada, you know that. But the Burns business, like almost any other business in the same line, found it extremely difficult to stand the tremendous heavy drop in commodity values and the disappearance of profits, a loss in inventories which was colossal I believe. The packers work on an extremely small margin of profit per dollar, and I gather they must carry very heavy inventories, and if there is a drop in commodity values then they must take substantial losses.

Q. The attempt, I think to make the earnings of the Burns Company pay dividends on another $7,000,000 of water is responsible for, shall I say, the rearrangement that seems to be necessary in Burns securities to-day, I only bring that up incidental to this question of whether the business of the investment banker should not be regulated, and unless you have some further information to express I think that is as far as I can go?—A. I have honestly given of my best or worst.

Q. You see, a lot of people are entrusting their savings, are putting their savings in securities which are issued by these companies which belong to your

association, and a lot of them have had their faith very badly shaken in certain companies at any rate. Whether that is going to extend to all people engaged in that business is a matter of concern, I should think, to every member of your association?—A. It is a matter of great concern, Mr. Coote. I would like to put this question to you, if I may: Supposing this committee in its wisdom decided to recommend to the House that a committee be appointed of your most eminent merchants and bankers, say nine of them, who will pass on and review every issue of securities brought out in this country, and they will say the issue can be made or cannot be made; supposing they say it can be made and it is passed on to the public, and in spite of their wisdom and judgment conditions change radically five years after the flotation is made difficulties arise, the company becomes insolvent and needs reorganization. What responsibility has that committee to the public? Is not the government taking the position almost of giving a quasi guarantee to that security.

Q. Well, that might depend upon the set up of the board which you are suggesting?—A. All right, won't the people in their ignorance say that that is approved by the government?

Q. Well, of course, that is very difficult to say in advance what the public would say, but I think a board even such as you suggest would not have allowed the flotation of, for instance, the Burns Company under the conditions under which it was floated?—A. The Burns Company, Mr. Coote, for years after it was floated, the securities were substantially good and marketable. I am not upholding the Burns business, I know very little about it, but I am defending the theory, and I am satisfied that the Burns securities were put out in all good faith, and I am satisfied that the best judgment of the people putting them out was based on that fact.

Q. All I can say is that the judgment of some of these men has been very poor, and perhaps their ability has been overestimated, and in some cases there was no justification whatever for putting the securities out.

The Right Hon. the Prime Minister: An opinion shared by a great many people, Mr. Coote.

Mr. Coote: Yes a great many. I do not know whether it is the majority or not. And my questions along this line are for this purpose; there are a great many companies engaged in the same business in Canada, and bad practice engaged in by a few of the leading companies may discredit the organization or the members of the organization in general. I think it is a very important question.

Mr. Baker: Mr. Chairman, may I ask with the object of getting back to Clause 166, which we are supposed to be dealing with on this bill, a question or two of the witness?

The Acting Chairman: Yes.

By Mr. Baker:

Q. Mr. Pitfield, may I ask, does your organization in the transaction of business provide convenient credits and assistance to those in trade and commerce, or individuals in the way of loans when they need them, and so on?—A. It provides rather long term loans to corporations and companies in business rather than to individuals, although in some cases—

Q. Your company does not directly supply the requirements of trade people, people engaged in trade and commerce, or individuals for the purpose of continuing in trade and commerce, or their requirements?—A. No.

Q. Well then, do you think that you in that way, in view of the fact that you are not giving that kind of service in the viewpoint of the Canadian public, when you do not give that necessary service, do you think that your class of business does qualify under the name, or should qualify under the name of

"bank" or "banker," as it is known to the people of Canada? That is, I think, the point that is before us under this Clause 166?—A. I think it is the most descriptive term that you can apply to the functions that a dealer in securities and long term loans fulfills.

Q. But, Mr. Pitfield, the interpretation of the word "bank" is an accepted term and understood in a certain way by the business people of Canada, and I am trying to find out if you really think that your business really does apply under the heading of bank, bankers or banking in even a sense in which the people of this country understand it, if it does not supply financial credit to those engaged in trade and commerce; if not, surely it does not apply under the name of "bank" or anything pertaining to that; surely another name can be found.

By Mr. Ernst:

Q. Mr. Pitfield, you stated that you supplied long term credit. Is it not correct to say that you loan money against a bond issue and sell that bond issue to the public?—A. That is correct, less such portion of it as may be retained.

Q. Well, that is one portion of the business of what you call investment banker.—A. That is correct.

Q. And that is what you mean by long term credit?—A. That is correct.

Q. And the bonds in the main are secured by a mortgage of the assets of the company which issues them?—A. Correct.

Q. So that really each bond is a little piece of the mortgage?—A. Correct.

Q. So you really are dealers in mortgages or pieces of mortgages, which is not banking, you will agree with me?—A. It is banking.

Q. Well, if that is banking, Mr. Pitfield, is not this banking: If Colonel Robinson lends money to me on a mortgage and then sells the mortgage to Mr. Spencer, is not he just as much a banker as you are?—A. We deal also in short term paper and notes.

Q. Such as?—A. In preferred shares.

Q. In other words, you buy preferred shares and sell them?—A. And underwrite them.

Q. And sell them?—A. Yes, and sell them.

Q. Well there again, a preferred share is not a short term security?—A. Mr. Ernst, could I read a definition from—

Q. You may read a definition, but I am saying to you that a preferred share is not a short term obligation.—A. No, but it is the provision of capital, and the provision of capital for working capital or fixed capital I assume comes under the journal term of banks and bankers.

Q. Is not that just such a proposition as this: You buy a mortgage which Colonel Robinson has given to Mr. Spencer who, in turn, sells it to Mr. Jacobs who turns it over to Mr. White?—A. That is mortgage banking and comes under the general heading of banking.

Q. I cannot agree with you on that.—A. Mr. Ernst, in some of the older European countries in which financing has been going on long before we ever thought of it, or in which banking has been going on, you have there land banks, mortgage banks, and things of that sort which are definitely called banking.

Q. In England, for instance, they call a drug store a chemist shop; they use different terms in different countries to describe particular operations. I will tell you frankly my objection to your use of the term; it is not because of the fact that reputable firms use it but due to the fact that other persons and houses would have an equal right to use it if you have, would they not?—A. Quite.

[Mr. Ward C. Pitfield]

Q. For instance, some little fellow who evades these Blue Sky laws and sells oil shares worth nothing, advertising himself as an investment banker. However, you have my objection, Mr. Pitfield.

The ACTING CHAIRMAN: Are there any further questions, gentlemen?

By Mr. Willis:

Q. Is there any service which your association now performs which cannot be performed if you changed the name to Investment Securities Association?—A. With the exception of dealing with that portion of the public here who, in the last ten years, have become accustomed to the phrase and accustomed to the term.

Q. People have become accustomed to seeing the words "investment banker" on many brokers offices which existed only for a short time.—A. I think they used the name "broker."

Q. But you have no control, have you, over the use of the name "investment banker"?—A. None whatever.

Mr. GEARY: This section was in the Act of 1923.

The ACTING CHAIRMAN: It has always been in. Are you ready for the question, gentlemen?

By Mr. Spencer:

Q. Just one or two questions, Mr. Chairman. In your remarks this morning, Mr. Pitfield, you said that investment bankers were not stockbrokers and that you preferred to have nothing at all to do with stockbrokers. Did you make that statement?—A. I did not say that we preferred not to have anything to do with stockbrokers. I think you must have misunderstood me, Mr. Spencer.

Q. I would like to get your meaning.—A. I said there, that we think the investment banking field was the field of dealing in securities, underwriting securities and then reselling them, which is totally different from the definition of a stockbroker who are simply paid as agents.

Q. Paid as agents only?—A. A man gives an order to buy 100 shares of stock and he goes on to the stock exchange and he takes a commission for so doing.

Q. But you deal virtually with the same type of investments, do you not? —A. On occasion, yes.

Q. What is the difference between an investment banker and an investment trust?—A. An investment trust is really primarily an investing company which purchases securities and holds them for either income or improving in value.

Q. And do they do somewhat the same type of business as investment bankers?—A. No, they are really primarily an investing company which holds securities, as I have just said, for income or for improving in value.

Q. As to your membership, do you remember the name of F. J. Fairhall and Associates?—A. I cannot say that I do.

Q. They advertise themselves as investment trust bankers. I wonder whether they considered themselves investment bankers, or whether you would consider yourselves as investment trust bankers?—A. They are really not members of our association and I cannot say.

Q. Well, I think that is a very good reason why this suggested amendment should be brought before this committee. You and your association may be perfectly in order and carrying on a perfectly good business, but here is a company that is not a member of your association and who, I am perfectly well aware, invested very largely in various stocks, led the people to invest very large amounts of money in good faith. That company has had to reorganize, they have run on to the rocks, and the people who invested their

money with them have lost a good deal, yet they advertise themselves under the title of investment trust bankers. This amendment we have brought forward, if it is not necessary to stop such firms or association of which you are the head, certainly should be passed to stop firms such as the one I have just mentioned. Now, have you had any knowledge of that association particularly as to the use of "banker," and the word "investment" in the advertising there?—A. Frankly, I have never seen that term used before. I am rather interested in what you say, Mr. Spencer.

Mr. SPENCER: It is on this envelope, but if you know nothing about that, and they are not members of the association there is no use catechizing you with regard to it.

Mr. STANLEY: Mr. Chairman, I was going to urge that the committee resume the consideration of the amendment before us when Mr. Baker did so, and now that I am on my feet I might express a few ideas which I have gathered from what I have heard during the last two or three hours. The name investment banker is a name that is now well established and accepted by the public, Mr. Pitfield, is it?

The WITNESS: I should think so, sir.

By Mr. Stanley:

Q. Would there be a real handicap to you or to your organization or to the members of your organization to withdraw that name now from the public?—A. Only within the limitations I gave in answer to Mr. Spencer. In other words, I think I said it would handicap to some extent our dealings with the United States market until they become used to any new term that is to be used.

Q. Do you consider that the public is in any way misled by the use of the word "banker" in connection with your organizations? Questions have been asked you which would lead us to infer that the savings of the public have been mulcted by members of that organization. Would those firms being called bond brokers be any less likely to carry on their business or wrong lines than if they were called investment bankers?—A. If you want my honest answer, no.

Q. Have the banks made any complaint about the use of this word?—A. Not to my knowledge.

Q. Have others complained?—A. Not to my knowledge.

Q. When the name was accepted and when its use began to be made, and particularly when your central organization assumed the name, was any objection offered to your organization?—A. Frankly, I do not recall any objection having been made. I think if any objection had been made the name would not have been used. You see the name was adopted by the association in 1925, and since I have been an officer of the association I know of no objection having been received.

Q. Then, in your opinion, I am right in assuming that this is a name which has become established particularly during the last ten years and accepted by the public; that you have 101 members of your organization throughout the country; that the investing public in general understand definitely what business is carried on by your concern; that the general public are not deceived into thinking that you are in any way related to the bank or in any way have more security than the ordinary bond dealer; that the banks are not offering any complaint in the use of the word; and that the name has become an established conception in the public mind?—A. That is my impression.

Q. I am trying to help you out, to tell the truth?—A. Thank you very much.

By Hon. Mr. Ralston:

Q. The association is not incorporated, is it?—A. No, Colonel Ralston.

[Mr. Ward C. Pitfield]

Q. Has there been an application for incorporation at all?—A. Not to my knowledge. The association itself considered incorporating—in fact, thought of coming this session to ask for incorporation—but finally decided we would hold the matter over for further discussion because, as you may know, the Investment Bankers Association in the United States have recently, with the approval of the United States government promulgated what they call a code of fair practice to govern investment banking business, which makes rather interesting reading, and is rather a step ahead. I would not attempt to express an opinion as to whether it is a sound step ahead or not without further study.

Q. You have not attempted to incorporate under the Companies Act of any of the provinces?—A. Not to my knowledge.

Q. This is my difficulty: It seems to me if you did attempt to incorporate and incorporated as investment bankers or with the word "bankers" in your objective powers, the incorporation would be refused?—A. Well, we discussed the matter of incorporattion and it was quite obvious we would have to apply for a special Act, and particularly obvious because if we did incorporate we should have to ask for, perhaps, exclusive use of that name, or some other name, and in that event I gathered it would have to be a special Act of legislation.

Q. And your idea was that if there were a special Act it should be a special Act of the Federal parliament?—A. Yes, sir.

Q. Because of the use of the word "banker." That was my difficulty. It did not seem to me you could get incorporated using the word "banker" either in name or in your objective without a special Act, and if that was the case then it seemed as if the only thing you could fall back on for the use of the word "banker" at all conventionally was its usage that you speak of from 1925 on, and that, in effect, you were using the name "banker" to intimate doing business which you would not be permitted to carry on as an incorporated association. As I understand it, under section 166 you claim, I suppose, some implied permission at least to use the word "banker" because of the fact it is not prohibited?—A. Not only that, but looking back to the Macmillan Commission testimony there is a definition of banking business given in 1918 by the British Treasury which was called to my attention this morning and which gives a very comprehensive definition of a banker. It includes among the functions of a banker the "issuing for subscription, or purchase or underwriting the issue of loans, shares or securities." We in Canada seem to attach sort oi a midway meaning to the name, midway between the usage in Great Britain and the United States; we are neither fish or fowl the way we are going.

Q. It does seem to me that being a banker and banking are pretty well defined in Canada by a sort of definition which is provided for as being under federal jurisdiction and, therefore, you could not get very far in connection with any incorporation unless you had a special Act under the federal parliament?—A. I agree with that.

Q. If that were so, then the use of the word "banker" was implying you were doing a business which you could not in reality without federal authority?—A. I do not think there is any wish to do so.

Hon. Mr. Ralston: I understand, Mr. Tompkins, that the word "banker" was especially left out of sec. 161 because some people were using the word, and they did not want it cut out. I do not think you are to be blamed for taking advantage of it.

Mr. Tompkins: I have sent for my authority on it, but I am positive that is the position.

Mr. Geary: That definition is rather against you.

Mr. Willis: I want to say one thing in conclusion—to point out to the committee that formerly the Act did not permit the use of the word "Banking

Association." That is to say, "Banking Association" could not be used, but instead they have now "Bankers' Association," and it seems to me that there is an inconsistency there. If we debar the use of the words "Banking Association" as we did in the past we should also now, to be consistent, bar "Bankers' Association." I do not want to repeat what I said before, but it appears now from the evidence that there is no control over the use of the words "Investment Banker." My personal opinion is that the ordinary man on the street believes that banker implies a bank, a commercial bank, and that it gives an impression to the man on the street of security which is not present. It also appears that the Bankers' Association itself would not rest under any handicap because they could use the words "Investment Securities' Association." The witness has indicated that there might be handicaps in regard to the United States, but surely in regard to the United States situation it does not give the United States banker any sense of security to be dealing with someone in Canada known as an investment banker over whom there is no control; and surely the American banker who does deal with Canada would soon know that in this country there is no control over the use of the words "Investment Banker" and, therefore, that in itself would not be a handicap to the Investment Bankers' Association of this country.

Discussion followed.

The Committee adjourned to meet Tuesday, May 22, at 10 a.m.

HOUSE OF COMMONS,

TUESDAY, May 22, 1934.

The Select Standing Committee on Banking and Commerce met at 10 o'clock a.m., Mr. R. B. Hanson in the Chair.

The CHAIRMAN: Gentlemen, will you come to order, please. This session of the committee is to take up item number 6 of the so-called Power resolution, viz:—

> The relationship between the banks or any of them and the pulp and paper industry, and the extent to which uncontrolled extension of credit brought about over-capitalization and over-expansion, and the subsequent disorganization and near bankruptcy of an industry dealing in some of the most valuable of our natural resources.
>
> And for the purposes of obtaining information on the matters and things hereinabove numerated, witnesses shall be called, including Sir Herbert Holt, President of the Royal Bank of Canada, Sir Charles B. Gordon, President of the Bank of Montreal, and such other bank presidents and directors as the committee may deem it advisable to summon.

And subsequently Mr. Power wanted to take up, under this heading, the Canada Power and Paper Corporation and indicated the names of certain witnesses whom he desired to have called.

I have communicated with all those witnesses by registered letter and have received replies from all of them with the exception of Mr. John Stadler, Sr., whose son, I think it is, writes under date May 21st, that John Stadler, Senior, is abroad and is not expected to return to Montreal for some time and, consequently, is unable to attend, not having received the notice.

Some weeks ago I communicated with Sir Herbert Holt to the effect that he would probably be called in connection with this matter, and I have a reply from him under date of April 18th in which he acknowledges receipt of the summons. He says:—

> Unfortunately, my three medical advisers will not permit me to go to Ottawa, but I shall be delighted if you will be good enough to arrange that a small committee, headed by yourself, will come to Montreal to take my evidence. I will be available at any time that is convenient to you and your committee if you will be good enough to advise me one or two days in advance of the date that you decide to come to Montreal.

I have also received a letter from Dr. C. F. Martin, Dean of the McGill Faculty of Medicine in regard to the matter:—

> Understanding from the Daily Press that there was to be an inquiry before the Banking Committee of Ottawa, at which Sir Herbert Holt was liable to be called, I took it upon myself, as one of his physicians, to visit him for the sole purpose of urging him under no conditions to undertake such a visit. He insisted at the time, however, that if he were called he felt it his duty to attend such an enquiry, and it was only after a second conference that I was able to persuade him against such a procedure.
>
> Sir Herbert Holt's physical condition for the past year has been one which requires avoidance of every strain, both physical and mental, and I really believe that a visit of that nature would be a serious and

> immediate peril to his health. As a physician, I am absolutely and irrevocably opposed to his going up to Ottawa, and I sincerely hope that such a demand will not be made upon him for fear that he might accept the invitation despite my protests.
>
> It is a very different matter for Sir Herbert to sit in his office, or at the bank, here in Montreal, and discuss matters of ordinary routine with individuals, and it is for that reason that I am allowing him to undertake the ordinary duties incident to his business engagements. Even that he is doing under supervision, and hitherto he has been wise enough to follow the suggestions of his medical advisers.

I read those letters to the committee in order that the committee and the public may understand that Sir Herbert Holt is quite willing to accept the invitation, but for the reasons stated it is considered inadvisable to call him to Ottawa. Mr. Irvine is not here this morning, but I would like to direct his attention to this correspondence which is, of course, open to the members of the committee.

Mr. Power: It will go into the minutes?

The Chairman: Oh, yes, it will go into the record.

Mr. Power: Before we leave this Sir Herbert Holt matter, Mr. Chairman, I think it has been pretty well understood that a sub-committee would go to Montreal.

The Chairman: Yes, that is the consensus of opinion, I think.

Mr. Spencer: May I ask, Mr. Chairman, if a questionnaire was sent down?

The Chairman: Yes, a questionnaire was sent down. That will develop in the course of the inquiry.

Mr. Power: I think perhaps I could take responsibility for that. I felt that if Sir Herbert was in such a poor condition of health, it would be proper for me, in so far as I was concerned personally, as a member of the committee only, to send down to Sir Herbert some kind of questionnaire indicating the line of questions which I intended to ask him. That, of course, does not in any way engage anybody else. Ever since the beginning of this inquiry, so far as I was concerned, I have made no effort to attack any of the witnesses but simply to ask them quite frankly and plainly what was the condition of affairs in any one of these items on my motion, and I thought that perhaps by carrying out the same method of procedure with Sir Herbert, only warning him a day or so in advance of the nature of the questions, we could obtain the information.

Mr. Coote: Has the date been decided on when the sub-committee will go to Montreal?

The Chairman: No. I think the committee will have to decide that to-day before we close. I would prefer to go to-morrow myself.

Mr. Power: To-morrow, or Thursday.

Mr. Stanley: Thursday is a holiday.

Mr. Power: The best kind of day to get some work done.

The Chairman: However, we can decide that before the session is closed to-day.

We have with us to-day Mr. J. H. Gundy, Mr. Geo. M. McKee, Mr. C. R. Whitehead, and Mr. George Chahoon, Jr. In what order, gentlemen, would you like to hear these witnesses? Mr. Gundy, would you be good enough to come forward.

J. H. GUNDY, called.

The CHAIRMAN: Mr. Gundy, in inquiries of this character it is not usual—and has not been practised in this committee—to swear witnesses; it is only in the case of judicial inquiries, or inquiries of a special character, that witnesses are sworn. I just want to make that explanation to you. Witnesses in this hearing are put strictly on their honour.

By Mr. Power:

Q. You are Mr. J. H. Gundy?—A. Yes.

Q. Of Toronto?—A. Yes.

Q. You are connected with a number of investment banking concerns, amongst others Wood, Gundy & Co., are you not?—A. Yes, sir.

Q. Is Wood, Gundy & Co., still in existence?—A. Yes, sir.

Q. Also Holt, Gundy & Co.?—A. Holt, Gundy & Co. is not in business.

Q. No longer in existence?—A. Well, I think the charter is there, but they have not done any business for years.

By the Chairman:

Q. They have not been wound up?—A. They have not been wound up, no.

By Mr. Power:

Q. Is there an office of Holt, Gundy & Co.?—A. There never was.

Q. There never was?—A. No. The books of Holt, Gundy & Co. were kept always in my office.

Q. In your office?—A. Yes.

Q. How long is it since it has operated?—A. I would say two or three years.

Mr. POWER: May I say, Mr. Chairman and members of the committee, that I propose, if possible, to stick as closely as I can to the issue, namely:—

> The relationship between the banks or any of them and the pulp and paper industry, and the extent to which uncontrolled extension of credit brought about over-capitalization and over-expansion, and the subsequent disorganization and near bankruptcy of an industry dealing in some of the most valuable of our natural resources.

But I must, in order to connect up the banks, in some way, lay a background and endeavour to show that there has been that over-expansion. If you, Mr. Chairman, think I am wandering too far afield I have no objection whatsoever to your checking me up.

By Mr. Power:

Q. Mr. Gundy, one of your associates in the firm of Holt, Gundy & Co. was Sir Herbert Holt of the Royal Bank?—A. Yes, sir.

Q. Now, during the years from 1925 to 1930—these years could be called an era of consolidation in the pulp and paper industry, could they not?—A. I would say, attempted consolidation but not successful.

Q. Attempted consolidation but not successful?—A. Yes. You see, the trouble at that time was, you could get two or three companies together, and while you were doing that there would be a new mill start and then you would be as bad off as ever. I think there were as many mills at the end as there were at the beginning, perhaps more.

Q. We will go into that later, but I would like you, perhaps, to elaborate on it a little bit at the present time. I take it that the object of those who were prominent in this consolidation was rather to restrict the output of paper in the districts in which they proposed to operate, was it not?—A. No.

Q. That was not the object?—A. No.

[Mr. J. H. Gundy]

Q. You said the consolidation was not successful, and you also said that more mills were built?—A. What I mean to say is, you had as many possibly at the end as there were at the beginning.

Q. As many companies?—A. Yes.

Q. Oh, I gathered that there were as many mills?—A. I think that is true too.

Q. Now, broadly speaking, the pulp and paper industry formed itself, or was formed into what might be called three groups. The Abitibi group controlling mills in Ontario and Quebec; the International paper group controlling mills in Quebec and New Brunswick; and the group known as the Holt, Gundy group, which eventually became Canada Power and Paper, is that so?—A. I never heard the latter name, the Holt, Gundy group, because Holt, Gundy had nothing to do with it. Holt, Gundy were not active in the paper business.

Q. Well, possibly it was called the Holt, Gundy group.—A. If it had been called the Wood, Gundy group I think it would have been more proper.

Q. Because Sir Herbert Holt happened to be the chairman or president of a large number of constituent companies, and you happened to be a director of a number of these companies?—A. Let me see, he was president of St. Maurice Valley Corporation.

Q. Yes?—A. And was he chairman of Port Alfred?

Q. Yes.—A. That is right.

Q. He was also president of the Belgo-Canadian, and you were one of the vice-presidents?—A. Belgo being a subsidiary of the St. Maurice Valley.

Q. He was also president of Canada Pulp and Paper, and you were a director?—A. Canada Paper?

Q. Yes?—A. For a short time I was the president of that company.

Q. And a number of the other companies, and afterwards you were both on the board of Canada Power and Paper?—A. Yes, sir.

Q. Now, as I understand it, the firm of Holt, Gundy & Co. and the firm of Wood, Gundy & Co. took a fairly active part in the organization or consolidation, and may I ask you this, would you call the firm of Holt, Gundy & Co. a wholesale dealer in securities?—A. Yes, sir.

Q. As compared to Wood, Gundy & Co. and which, perhaps, was a retail dealer?—A. Yes, sir.

Q. Holt, Gundy & Co. underwrote securities to perhaps a greater extent than Wood, Gundy & Co. but Wood, Gundy & Co. was a distributor?—A. Oh no, Holt, Gundy & Co. was not nearly in as big a way as Wood, Gundy & Co.

Q. Not nearly in as big a way?—A. No. Wood, Gundy & Co. was the active firm. Holt, Gundy & Co., as you say, would take underwriting and buy and sell their retailers. They never had any organization for selling securities.

Q. If I seem to interrupt you do not pay any attention to me, Mr. Gundy.

By the Chairman:

Q. In a general way Mr. Power's statement is more or less correct?—A. Yes.

Q. Wood, Gundy & Co. were distributors and Holt, Gundy & Co. were underwriters and wholesalers?—A. And retailers.

By Mr. Power:

Q. And you were, of course, prominent and had a large interest in both concerns?—A. Yes, sir.

Q. Is it not a fact, that Holt, Gundy & Co. did itself distribute to a large extent through Wood, Gundy & Co?—A. Yes, sir.

Q. That is true?—A. Yes, sir.

Q. Now may I ask you about what period you decided to go into the paper game?—A. Yes, sir. What brought us into the paper business was the failure of the Bay Sulphite Company of which we had sold the bonds. The Becker firm in England, who owned an equity—

[Mr. J. H. Gundy]

Q. Which afterwards became Port Alfred?—A. Yes. We tried to get Price Bros. and the Abitibi crowd to take it and they would not, so we looked after it ourselves.

Q. I thought you said you tried to get Price Bros.?—A. We tried to get them to take it.

Q. Well, about what year was that?—A. I think that was in 1923.

Q. In 1923?—A. Yes.

Q. When was Holt, Gundy formed, about that time?—A. Oh, later than that I think.

Q. Later than that?—A. I think so. Holt, Gundy & Co. had no interest in Bay Sulphite, and they had no interest in Port Alfred, certainly in the early stages. The account of Port Alfred was never in the Royal Bank, for instance.

Q. I want to proceed in chronological order, if possible. The formation of Canada Power and Paper, that I know was complete; the Port Alfred transaction was an isolated transaction and did not come into Canada Power and Paper until the nucleus had been formed by that consolidation. Am I right in that?—A. That is correct, yes sir.

Q. Am I correct in saying that the beginning of Canada Power and Paper, as it existed in 1931, was the consolidation of the St. Maurice Paper Co. with the Belgo-Canadian?—A. Yes, sir.

Q. Were you interested in that?—A. Yes, sir.

Q. You were?—A. Yes, sir.

Q. The St. Maurice Paper Company was owned by what concern prior to the time that you became interested in it?—A. Pardon?

Q. Who owned the St. Maurice Paper Co. prior to the time you became interested in it?—A. The Union Bag & Paper Co. controlled it.

Q. Was that the Baptiste family of Three Rivers?—A. No, it was an American firm of bag manufacturers, the Union Bag & Paper Co. of New York City.

Q. The Baptiste limits and holdings eventually went into St. Maurice Paper, did they not?—A. Well, if they did it was before I knew anything of it.

Q. Now, how did you obtain control or obtain a footing in St. Maurice paper, by purchase of stock?—A. Purchase of the shares, yes, sir.

Q. By purchase of the shares from the Union Bag & Paper Co.?—A. Yes, sir.

Q. Then there was a merger with the Belgo-Canadian?—A. Yes, sir.

Q. The Belgo-Canadian was a company in which there was a large amount of Belgian capital, was there not?—A. Yes, sir.

Q. Originally?—A. Yes, sir.

Q. Did the St. Maurice paper buy the Belgo?—A. No. A new company was taken over—or formed rather—called The St. Maurice Valley Corporation, which owned both.

Q. Which owned both?—A. Yes, sir.

Q. In what way was it acquired?—A. By purchase for cash.

Q. By purchase for cash?—A. Yes, sir.

Q. Of the share of St. Maurice and of the shares of Belgo?—A. Yes, sir.

Q. The St. Maurice Valley Corporation then became owner of all properties of St. Maurice paper and 85 per cent of the common stock, I think, of Belgo, is that right?—A. Yes.

Q. Now, you were prominent in that organization because you afterwards became a director?—A. Yes.

The CHAIRMAN: Just by way of suggestion, could you give the committee some dates on this; and, if it is available, may I suggest that the balance sheets of these companies be put in the record if we want to get a true picture.

[Mr. J. H. Gundy]

Mr. Power: Yes. I did endeavour to obtain the prospectuses but I have not obtained them yet.

The Chairman: I have asked Mr. Gundy to bring with him all his figures in relation to those matters, and I think he will probably be able to supply us with all that.

Mr. Power: Well I am, perhaps, not proficient enough in reading a balance sheet to know what it is talking about.

The Chairman: Well, you can make a hit at it. I think we will get a very good picture of the situation, so far as the capitalization and so forth is concerned, if you put in the balance sheets.

Mr. Coote: I wonder whether we could not now have—or some time soon—in the evidence the capitalization of the companies as they were merged?

The Chairman: That is why I asked for the balance sheets.

By Mr. Power:

Q. I can ask Mr. Gundy, I think, in a pretty general way. This St. Maurice Valley Corporation was effected in 1925, was it not?—A. I think so.

Q. It was incorporated in 1925 by a Quebec charter?—A. Yes.

Q. And it was incorporated to take over all the assets of St. Maurice Paper, and as many of the shares as could be acquired of Belgo-Canadian?—A. Yes. sir.

The Chairman: And that was 85 per cent?

By Mr. Power:

Q. Eighty-five per cent of Belgo common?—A. Yes, sir.

Q. Some of the directors were, the president Sir Herbert Holt and director Mr. J. H. Gundy of Toronto?—A. Yes, sir.

Q. That is, the St. Maurice Valley Corporation?—A. Yes, sir.

Q. What was the authorized issue of stock of the St. Maurice Valley Corporation at the time?—A. The amount issued was 150,000 shares.

Q. What was authorized?—A. I cannot give you that without looking it up.

Q. 500,000?—A. It might be.

Q. And in fact 160,000 issued?—A. Well, it was originally 150,000 and shortly after increased to 160,000.

Q. There was a bond issue also authorized at $15,000,000 was there not?—A. Yes, the issued amount was $8,699,000.

Q. I have here nine ninety nine something.—A. There was a subsequent issue which brought it up to that, Mr. Power.

Q. Then assets in 1927 were $54,000,000, is that about right?—A. Yes.

Q. Now, will you tell me what price you paid for the Union Bag & Paper shares?—A. Well, I think we paid par for them. I am not quite sure, but I think we paid par.

Q. What was the capitalization?—A. Oh, $10,000,000. I have forgotten, some such figure.

The Chairman: If they would hand you a balance sheet it would give you the exact picture. That is why I made the suggestion, Mr. Power, and I believe they have them with them.

Mr. Power: Well, while we are getting them I will pass on to the story of the transaction.

By Mr. Power:

Q. Anyway, at this time, in 1925, the St. Maurice Valley Corporation controlled the St. Maurice Paper and the Belgo-Canadian through stock ownership?—A. In the case of Belgo, stock ownership, and in the case of St. Maurice Valley Paper, the physical assets.

[Mr. J. H. Gundy]

Q. The physical assets. Your arrangement with Belgo was a lease, was it not?—A. Yes, sir.

Q. And afterwards the physical assets were taken over, were they not?—A. No, never.

Q. Were they not?—A. No, never by Canada Power.

Q. In 1927 control of Belgo passed from Belgo shareholders to the group with whom you were connected?—A. In 1925.

Q. In 1925?—A. Yes, sir.

Q. And Sir Herbert Holt became president, Mr. McKee became vice-president and manager, and you were one of the directors?—A. Yes, sir.

Q. Then your next step was the acquisition of Canada Paper Company was it not?—A. Yes, sir.

Q. That was acquired in 1926?—A. Yes.

By the Chairman:

Q. That is the Windsor Mills property?—A. Yes, the Windsor Mills property.

Mr. Power: Canada Power Company, I might point out to the committee, is a distinct entity from the Canada Power & Paper. Canada Power & Paper came afterwards, but Canada Power Company was a company which had been in existence for some time.

The Witness: A very old company.

By Mr. Power:

Q. With mills at Windsor Mills and one in Quebec?—A. No.

Q. Just the mill at Windsor Mills?—A. Just the one.

Q. And the next step was the acquisition by St. Maurice Valley Corporation of a one-third interest in Anticosti, is that correct?—A. Yes, sir.

By the Chairman:

Q. That is The Anticosti Corporation?—A. Yes.

By Mr. Power:

Q. I am not sure whether it was a third interest in the corporation or in the purchase of the island itself before it was incorporated. Who purchased Anticosti from Senator Meunier?—A. The transaction was negotiated by Mr. Whitehead, of Wayagamack. The actual purchase was by the three companies, Port Alfred, St. Maurice, and Wayagamack.

Q. The transaction was negotiated by Mr. Whitehead on his own behalf?—A. On behalf of Wayagamack I assume.

The Chairman: At what time?

By Mr. Power:

Q. At what date in 1926?—A. Let me see, that was August, 1926.

Q. August, 1926, I think, was when the Anticosti corporation was formed; I have not the facts.—A. That was done all at one time.

Q. Well, may I ask at this point just how this transaction was brought about? Mr. Whitehead, as I understand it, obtained an option from Senator Meunier, is that right?—A. I think he made a contract to purchase. Did you not, Mr. Whitehead?

Mr. C. R. Whitehead: No, I obtained an option.

By Mr. Power:

Q. There have been rumors to the effect that there were large commissions, and my opinion is that there were no commissions. Perhaps that ought to be cleaned up.

The CHAIRMAN: Can this witness tell us what the purchase price to Senator Meunier was?—A. My recollection is $6,000,000.

Mr. SMOKE: For a one-third interest?

The CHAIRMAN: No.

Mr. POWER: No, for the whole island, all the mineral rights, fishing rights, and everything else, including the right to prevent anybody else from landing at the island.

The CHAIRMAN: That was in August, 1926.

Mr. POWER: In August, 1925.

The WITNESS: 1926, Mr. Power.

By Mr. Power:

Q. Then the next step was the merger of St. Maurice Valley which controlled all these corporations to which I have referred?—A. Yes.

The CHAIRMAN: The next step would be the setting up of the Anticosti Corporation.

Mr. POWER: He just said there were three companies interested in the Anticosti Corporation. Were the St. Maurice Valley interested to the extent of one-third, Wayagamack to the extent of one-third, and Port Alfred to the extent of one-third?

The WITNESS: Yes.

By Mr. Power:

Q. And the next step after the purchase of Anticosti was the merger of St. Maurice Valley and the Laurentide Company?—A. Yes, sir.

Q. That took place in 1928?—A. Yes, sir.

Q. And they began business in 1928?—A. Yes, sir.

Q. It was at that time that the Canada Power & Paper Corporation was formed?—A. Yes, sir.

Q. The Canada Power Corporation was incorporated in 1928 in the province of Quebec?—A. Yes.

Q. For the purpose of taking over the St. Maurice Valley and the Laurentide which had been merged?—A. Yes, sir.

The CHAIRMAN: 16th January, 1928, my information is, the date of the Letters Patent.

The WITNESS: In January, 1928.

By Mr. Power:

Q. It began business in 1928 at any rate?—A. The beginning of 1928.

Q. Yes. In the Canada Power & Paper, the first chairman of the board of directors was Sir Herbert Holt?—A. Yes.

Q. And Mr. Chahoon, who had formerly been president of Laurentide, became president of Canada Power & Paper?—A. Yes, sir.

Q. Is that right?—A. Yes, sir.

Q. And you were a director of the company?—A. Yes, sir.

The CHAIRMAN: Will you give us the set-up of the company, that is, the Canada Power & Paper.

By Mr. Power:

Q. The capital of the new company, that is, Canada Power & Paper, was 750,000 shares, was it not, authorized?—A. Yes.

Q. No par value?—A. Yes.

Q. You issued 688,000?—A. Yes.

Q. Of which 288,000 were issued to shareholders of Laurentide?—A. Yes.

Q. Plus each of the shareholders of Laurentide received how many shares?—A. One share, share for share.

Q. Share for share plus?—A. Plus one debenture of $100. $5\frac{1}{2}$ per cent.

Q. $5\frac{1}{2}$ per cent debenture of $100?—A. Yes.

Q. There were also issued to St. Maurice Valley Corporation 400,000 shares?—A. Yes.

Q. Which were divided amongst the shareholders of that corporation on a ratio of $2\frac{1}{2}$ for one share of St. Maurice Valley?—A. Yes, sir.

Q. There were no preferred?—A. No preferred.

Q. You were authorized to issue $100,000,000 of bonds and debenture stock, were you not?—A. Yes, sir.

Q. And you actually at that time issued $28,800,000?—A. Yes, sir.

Q. Of debentures?—A. Yes.

Q. A portion of which went to pay the shareholders of Laurentide?—A. All of it.

Q. All of it went to pay the shareholders of Laurentide?—A. Yes.

Q. You issued no debentures to the public at that time?—A. No, sir, none whatever. No shares or debentures or anything else were sold to the public.

The CHAIRMAN: You might put on record the amount of capital with which Canada Power & Paper began business because that might be of some importance; the shares were no par value, $3,750,000. The amount of capital with which the company should begin business was $3,750,000 according to the record, and that was later increased to $10,000,000.

By Mr. Power:

Q. Is that so, Mr. Gundy?—A. That is a matter of record, Mr. Power. I think it is so.

Q. Now I come to the Laurentide Company. In all probability, you were not familiar with the earlier consolidation of Laurentide but perhaps it should be on the record and I will give it as I have taken it from the financial statements. It was incorporated in 1887 in Canada with a capitalization of $200,000. It was called at that time the Laurentide Pulp Company. Its capitalization was increased as follows:—

In 1887 it was increased to $300,000.
In 1897 it was increased to $900,000.
In 1898 it was increased to $1,200,000.
In 1899 it was increased to $1,600,000.

Then there were various stock bonuses issued to the shareholders, but in 1911 the Laurentide Company was incorporated by Dominion Charter with a capitalization of $10,000,000 in March, 1911. In August, 1911 the Laurentide Pulp Company sold to the Laurentide Company Limited on a basis of two shares for one, that is, for $7,200,000. In 1913 the remainder of the issue of $10,000,000, or a portion of the remainder, namely, $2,400,000 worth of shares were sold to the shareholders at par. Then in January, 1920, a new Laurentide Company was formed with the same name and they took over the old and paid three for one of the old stock. The price range of its shares was from about 70 in 1920 to 139 in 1928, and it continuously paid a 6 per cent dividend. Now, that was before you came into the picture at all, Mr. Gundy?—A. Yes.

Q. Then sometime in 1929 you must have approached the Laurentide in connection with the merger of the company, is that so?—A. We were more or less in touch all the time, and I think the discussions began in the autumn of 1927.

Q. In 1927?—A. Yes.

Q. And you effected the merger on the lines we had in evidence, that is to say, for one share— —A. Of course I had no power to effect the merger; I had

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no shares in Laurentide and did not control St. Maurice. The merger was consummated by the action of the boards of directors of the two companies and the shareholders of the two companies. No outside banking house, or financial house was in any position to influence that transaction one way or the other.

By the Chairman:

Q. Do you suggest it was a perfectly regular transaction between the two corporations?—A. Yes sir, I do. I was a director of the St. Maurice Valley Corporation and interested in it, and I also thought it would be a good thing for the industry for these two companies to come together.

By Mr. Power:

Q. But you personally said that you had no particular part in bringing about this merger?—A. Oh yes I had. I did have a part, but so far as my influence was concerned it was all for the merger. I had many discussions with Mr. Chahoon about it, and we had many long arguments before the two companies came together. But when the transaction was done it was done by the directors first of the two companies ratifying the understanding, and then by the shareholders of the two companies giving effect to it by exchanging their shares.

Q. You were, of course, a director of St. Maurice Valley?—A. Yes, sir.

Q. You were not a director of Laurentide?—A. No.

Q. Was Sir Herbert Holt?—A. No.

Q. He was not a director of Laurentide?—A. No, sir.

Q. But he was of St. Maurice Valley?—A. Yes.

The CHAIRMAN: May I suggest that the witness be asked at this point what was the underlying reason for bringing about these mergers because that is a matter of public interest.

Mr. POWER: I quite agree, Mr. Chairman. Would you answer that question, please.

The WITNESS: The underlying reason for promoting these mergers was to eliminate causes of friction in the industry which were destructive.

By Mr. Hackett:

Q. Was not there a question of profit in it for someone?—A. No banking house or brokerage house or financial house made five cents in fees or commission or remuneration of any kind.

By Hon. Mr. Euler:

Q. No, but there would be some profit if you could get rid of these causes of friction?—A. If it had been successful.

By the Chairman:

Q. May I ask this question: As another underlying reason, was there not an increased influence in the newsprint field on the part of International Paper; was not that an underlying reason?

Mr. POWER: I was going to ask that question sometime later, Mr. Chairman.

By Mr. Power:

Q. Is it not a fact that you were afraid of the influence of International Paper.

By the Chairman:

Q. Its control of the market?—A. I would think that that may possibly have had some influence. It did not occur to me that it did but you are probably right. I mean International Paper was a very active, progressive concern, and their activities would, no doubt, have been in the minds of their competitors.

 [Mr. J. H. Gundy]

By Mr. Power:

Q. In another committee now sitting these have been questions based on conversations or rumours, which we have not hitherto indulged in here, at least not very much, and perhaps it might be all right for me to ask you if there was not some question between Sir Herbert Holt and Mr. Graustein of the International Paper Company as to the growing interest in the power development field of the International Paper, and that when they would not come together on this Sir Herbert Holt and you decided that you would go into the pulp and paper to a considerably greater extent in order to fight off the International? —A. Well, that is something you had better ask Sir Herbert when you see him, I have no knowledge of it.

Q. I thought perhaps being intimately associated with Sir Herbert you might know something of his motives?—A. So far as I am concerned there is nothing to that.

Q. Now, this Laurentide Company also controlled a company called Laurentide Power?—A. Yes.

Q. Laurentide Power was an off-shoot of the Laurentide Company. It was formed to take over all the power rights of the Laurentide Company, is that so? —A. Yes.

Q. Its capitalization was a capital stock of $10,500,000 and issued $10,500,000, of which 72,000 shares were issued to the Laurentide Company. There were bonds somewhat as follows:—$7,500,000 worth of first mortage 5 per cent bonds and $2 000,000 worth of sinking fund $5\frac{1}{2}$ per cent bonds. The stock range of that Laurentide Power stock ran from 70 in 1922 to 275 in 1928, is that right? —A. I would think so.

Q. Now, in 1928 after Canada Power & Paper had obtained control of Laurentide, and therefore of its subsidiaries, was this company sold, that is, the Laurentide Power to Shawinigan?—A. Yes, sir.

Q. What was the price?—A. My recollection of the price was $10,500,000 cash and share for share in Shawinigan stock and the assumption of the bonds.

Q. I have it this way, $150 cash for each share?—A. Yes.

Q. Plus one share of Shawinigan?—A. That is it, and the assumption of the bonds.

Q. I have not got what Shawinigan was worth at that time but I assume it was worth in the 80's?—A. Yes.

Q. Selling in the 80's not what it was worth. There was also a subsidiary of the Laurentide Company called the Ottawa-Laurentide, was there not?—A. Laurentide-Ottawa.

Q. Was that formed after you came into the company?—A. No, sir.

Q. Prior to that?—A. Yes, sir.

Q. Can you tell me about what became of Laurentide-Ottawa?—A. It was absorbed into the Consolidated Paper Company.

Q. Into the Consolidated Paper Company?—A. Yes, sir.

By the Chairman:

Q. Did it come into the Canada Power Corporation?—A. It remained just where it was as a subsidiary of the Laurentide Company.

By Mr. Power:

Q. I was under the impression that some at least of the properties were given back to their owners?—A. If that happened it was after the reorganization or during the reorganization of Canada Power.

Q. You would not know a thing about that?—A. No.

Q. By this time, in 1928, Canada Power controlled the St. Maurice Valley and Laurentide and its subsidiaries?—A. Yes, sir.

[Mr. J. H. Gundy]

Q. Now we will come to Wayagamack. Wayagamack Pulp & Paper Company was incorporated in 1910 by Dominion charter. I do not know what the original capital was, but I assume it is that which I have as being 250,000 no par value shares, as of 1929, of which 133,333 were issued, and there were bonds authorized of $5,000,000 and issued $5,000,000. Wayagamack also controlled a company called Wayagamack News Limited. Now, at what time did Canada Power & paper take over Wayagamack?—A. October, 1929, Mr. Power.

Q. Wayagamack was taken over in 1929?—A. Yes. They got half a debenture, $50, and a share and a half of common for each of their common shares.

Q. The price range of Wayagamack stock from 1922 to 1929 was approximately 65 in 1922, and in 1929 I think 127½. Was that just about the date when news of the merger was made known?—A. I think it was a little earlier, but you may be right.

By the Chairman:

Q. Were you interested in Wayagamack?—A. No, sir.

By Mr. Power:

Q. Now, we will go back to Port Alfred Pulp & Paper Corporation, which was your first venture in the newsprint field. You said that some time around 1923 you became interested in the Bay Sulphite?—A. Yes, sir. We sold some bonds for Bay Sulphite. We had no interest in the company except that we bought and sold an issue of bonds.

Q. Bay Sulphite was a combination of Chicoutimi Pulp and Saguenay Companies?—A. No, sir; it had nothing to do with Chicoutimi; it was simply the Ha Ha Bay Sulphite Company.

Q. Well, when you became interested in it you purchased it from the liquidator, did you not?—A. We purchased it from the liquidator, yes sir.

Q. Did you become interested in Chicoutimi Pulp Company at that time?—A. No, sir.

Q. Was it later that you became interested in the Chicoutimi Pulp Company?—A. Yes. We were not interested in Chicoutimi Pulp Company.

Q. I will ask you this then: You purchased Bay Sulphite and Chicoutimi Pulp Company about the same time and that you afterwards segregated them?—A. No, we never owned Chicoutimi Pulp Company.

Q. Never had anything to do with it?—A. No, never had anything to do with it.

Q. Well, what became of Bay Sulphite?—A. Bay Sulphite was wound up and the properties were sold to a new company called the Port Alfred Pulp & Paper Corporation, the bondholders receiving bonds in the new company par for par, at the same time there were issued a million and a half of income bonds.

Q. That was in 1927?—A. That was in 1924.

Q. 1924?—A. Yes, and we used those to secure capital, working capital for the new company; we borrowed $750,000 on that from the Molsons Bank and I personally guaranteed the loan. That is the way that company started.

Q. Well, was it called Port Alfred Pulp & Paper Corporation in 1924?—A. Yes, sir.

Q. I have it here that the Port Alfred Pulp & Paper Corporation was incorporated in 1927?—A. Oh no.

Q. You built a newsprint mill at Port Alfred, did you not?—A. Yes, sir.

Q. When?—A. We began in 1925 and finished in 1926.

Q. How was that financed?—A. It was financed by the issue of preferred shares and additional bonds. The first issue of preferred shares was in March, 1925, taking the place of $750,000 of preferred shares which took the place of $750,000 of these income bonds.

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Q. That is to say, you first issued income bonds?—A. Yes, that were never sold.

Q. Then you issued preferred shares to pay for the income bonds?—A. The income bonds were never sold.

Q. They were in the hands of the promoters?—A. The bank.

Q. You borrowed money on them from the Molsons Bank?—A. Yes, sir.

Q. And then in order to retire the preferred shares you sold what?—A. We never retired those preferred shares.

Q. You did not retire those preferred shares?—A. No; they remained out. The first issue of 750,000 was in March, 1925. In June, 1925, we sold 2,250,000 of them. Then, in February—

Q. 2,250,000 preferred?—A. Yes. In February, 1926, we sold a million. In August, 1926, we sold 2,000,000.

Q. That makes in all how much?—A. 6,000,000.

Q. 6,000,000 of bonds of Port Alfred?—A. Yes.

Q. That is to say, just before it was taken over by Canada Power, 6,000,000's of bonds of Port Alfred——A. It was more than that when it was taken over. I was talking of the preferred shares. The bonds outstanding when it went into Canada Power were 15,000,000.

Q. 15,000,000?—A. Yes.

Q. What were the preferred shares?—A. 6,000,000.

Q. What were the common?—A. Common?

Q. Yes.—A. The common were 120,000,000 shares.

Q. The common was sold for about $100 low during that period of 1928, 1929; is that right?—A. The company sold common stock to provide capital in December, 1926, sold 60,000 shares at $25 a share.

Q. Then it went up?—A. Went up as high—in 1929 it went as high as $140.

Q. It went as high as $140?—A. Yes; in May, 1928, that was.

Q. Can you tell us what were the assets of Port Alfred at that time?—A. Assets were their mills.

Q. What mills?—A. One mill.

Q. Newsprint?—A. A sulphite mill and a newsprint mill.

The CHAIRMAN: How many machines?

The WITNESS: Four machines for newsprint.

Mr. COOTE: To clear the record, perhaps Major Power would let Mr. Gundy give us the total value of the mill, and how that mill was financed.

The CHAIRMAN: He has been telling you that.

Mr. COOTE: I do not think it was made complete.

The CHAIRMAN: The statement is not very compact. This financing was done to complete the mill?

The WITNESS: Yes.

Mr. COOTE: We can get that later.

Mr. POWER: Have you any idea how much money went into the construction of the mill? Does that meet your question, Mr. Coote?

Mr. COOTE: Yes.

By Mr. Power:

Q. How much money went into the construction of the mills; how much was spent?—A. I cannot give you that offhand. You see, it was spent over a period of two years. I cannot tell you exactly; the books will indicate it.

Q. What mills would you have?—A. We had limits quite close to the mill, comparatively small limits, and then we acquired a very large important limit on the Peribonka river by lease from the Quebec government.

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Q. The Port Alfred also—the mill and the limits composed all the assets of the company?—A. Yes.

The CHAIRMAN: Working capital?

The WITNESS: Working capital, some small water powers.

By Mr. Power:

Q. In other words, you acquired a share in what was formerly the Chicoutimi Pulp Company and what was then known as the Quebec Pulp and Paper Corporation. Is that right?—A. Yes.

Q. Was it in liquidation at the time?—A. I do not think so.

Q. What did you pay for it?—A. My recollection is that we each put up a million and a quarter dollars.

Q. I have a million and a half, but it is subject to correction?—A. Maybe.

Q. You, in order to purchase a 50 per cent interest, put up a million and a half and Price Brothers, to purchase the other interest, put up the other million, so that Port Alfred then had a half interest in this Quebec Pulp and Paper Company?—A. Yes.

Q. Has the Quebec Pulp and Paper Mills operated to any extent?—A. No; they have operated, but it has never been a very profitable concern.

Q. It has not been profitable?—A. No.

Mr. GAGNON: Why?

The WITNESS: Because groundwood mills never are.

By Mr. Power:

Q. To what extent has Port Alfred operated, or to what extent had it operated before it was put in— —A. It had always maintained independent management. We had one or two directors and Price Brothers had one or two directors.

Q. You are now speaking of Quebec Paper Mills?—A. Yes.

Q. I am back again to Port Alfred. To what extent was it operated?—A. It operated very actively from the beginning.

Q. From the time you took it over from Bay Sulphite?—A. Yes.

Q. Sir Herbert Holt was chairman of the Board of Directors?—A. Yes.

Q. You were a director?—A. Yes.

Q. Mr. George McKee was president?—A. Yes.

Q. At the time the Quebec Paper Mills organization was composed of directors of Price Brothers and directors of your concern?—A. And—

Q. And Mr. Nichols?—A. And Mr. Nichols, yes, that is right.

Q. You think now the Quebec Paper Mills was worth $3,000,000?—A. I would not be surprised, Mr. Power, I do not know what it is worth. I would not be surprised if some day it would prove to be rather useful.

Q. Is it not a fact in Price Brothers' accounts it is marked down as being worth $1; their investment is marked down as being worth $1?—A. It is an advantage, having lots of assets, to write them down.

Mr. COOTE: What is it worth?

Mr. POWER: Nothing.

Mr. IRVINE: $1 is too high.

By Mr. Power:

Q. It was said at the time Port Alfred was booming that the assets were valued far in excess of their cost. Was there anything in that?—A. I do not believe so.

Q. You do not know. You were not a practical pulp and paper man?—A. No.

Q. You never have been?—A. No.

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By the Chairman:

Q. Did you have an appraisal made of their assets before going into the merger?—A. In the Canada Power and Paper? I do not think so. We certainly did not write them up at that time.

By Mr. Power:

Q. Port Alfred eventually went into the Canada Power and Paper on what terms?—A. They received $2\frac{3}{4}$ shares of Canada Power company stock for their shares and no debentures.

Q. $2\frac{3}{4}$ shares of Canada Power and Paper?—A. Yes.

By Mr. Coote:

Q. Was there only one class of shares?—A. Of Canada Power, yes, sir.

By Mr. Power:

Q. What did you yourself or through one of your companies put into Port Alfred in money?—A. Oh, I suppose—of that 60,000 shares that were sold for $25, I put in quite a substantial amount of money, but I do not remember the amount. They were offered to the existing shareholders pro rata, and I took my full shares of course.

Q. You took your full shares?—A. Yes.

Q. You did?—A. Everybody did; all shareholders took up the stock.

Mr. Hackett: At $25 a share?

The Witness: Yes.

By Mr. Power:

Q. You had substantial holdings in the company already, because you had practically financed the purchase of Bay Sulphite?—A. Yes.

Q. You had financed it out of your own money?—A. Yes, out of my own credit.

Q. Out of your own credit?—A. Yes.

Q. Credit with the bank?—A. Yes.

Q. Which bank?—A. Molsons Bank.

Q. And after that you received a substantial amount of stock?—A. Yes.

Q. Which in due course was worth $100 a share, and afterwards was worth $2\frac{3}{4}$ shares for 1 of Canada Power and Paper?

The Chairman: Which was exchanged.

By Mr. Power:

Q. Which was exchanged for $2\frac{3}{4}$ shares of Canada Power and Paper?—A. Yes.

Q. Can you tell me how many shares of Port Alfred you had at the time it went into Canada Power and Paper?—A. No; I can easily get that for you, but I cannot tell you offhand.

Q. You have not got it?—A. No.

Q. But all of those shares came to you from the use of your credit in organizing this company?—A. No; for half of them I paid $25 cash.

Q. You paid $25 cash for half of them?—A. Yes.

Q. Perhaps I should not ask you about the sale of any of them, but did you sell them?—A. Not a share. I was too stupid. As I say, I did not know the pulp and paper industry.

Q. It is a source of extreme gratification to know we were not the only fools in the market.—A. I was in England. I will tell you I was in England

at the time, and I was talking to a man and he said to me, "I have some Port Alfred shares; I have a big profit in them, had I better sell them." I said, "Why don't you sell half of them," which he did. I never sold one of mine—didn't have sense enough.

By Mr. Coote:

Q. What price were they at that time?—A. $140. The trouble about being closely interested in those companies, is as you know, Mr. Power, you always think they are wonderful, and you never sell.

By Mr. Power:

Q. This is also by way of digression. We were informed by some of the bankers who were here before you that during this boom period they endeavoured to urge their clients to sell some of their securities. Did the banks tell you you had better sell?—A. Probably they did. Probably in justice I should say they did.

Q. You did not pay much attention?—A. Did not pay much attention.

By Mr. Geary:

Q. At the time the Canada Power took over the Port Alfred company stock at $2\frac{3}{4}$ for one, what was outstanding against Port Alfred in the way of capital structure?—A. 15,000,000 of bonds, 6,000,000 preferred.

Q. That remained as overhead?—A. Yes.

Mr. Hackett: And 60,000 shares of common?

The Witness: 120,000 shares.

The Chairman: The common were exchanged.

The Witness: The common disappeared in the Canada Power.

The Chairman: 120,000.

The Witness: Yes.

The Chairman: If we had the balance sheet it would complete the picture.

Mr. Gagnon: I have one balance sheet here published by the MacLean's Publishing Company in 1929.

The Witness: That is correct, is it?

Mr. Gagnon: I have the balance sheets of all those companies, and they are at your disposal, Mr. Power, if you want them.

Mr. Power: I have tried to understand them and I could not, so I will let you work it out.

Mr. Geary: I should like to know on what basis it was worth that amount of money?

Mr. Power: What was worth that?

Mr. Geary: Port Alfred.

The Chairman: The balance sheet may show you.

By Mr. Power:

Q. Here is the balance sheet. You will find it in "Pulp and Paper Securities." You will also find that the newsprint industry was flourishing. So that in 1929 you had in addition to the other consolidations in Canada Power and Paper, Port Alfred Pulp and Paper. What was the next step? What other concerns were brought within the organization of Canada Power?—A. I think that was the final step, Mr. Power, so far as I recall.

Q. Anglo Canadian?—A. Yes.

[Mr. J. H. Gundy]

The CHAIRMAN: 1930?

The WITNESS: They were only visitors, though.

By Mr. Power:

Q. Mr. Gundy says the Anglo Canadian were only visitors. Tell us something about that. This was the corporation formed by Lord Rothermere?—A. Yes.

Q. It owned limits in the province of Quebec and owned lands, and had a large mill in the city of Quebec.

The CHAIRMAN: Did they have a mill?

Mr. POWER: They had a large mill in the city of Quebec.

By Mr. Power:

Q. How many machines did the Anglo Canadian company have?—A. Four machines.

Q. When did it come in the Canada Pulp and Paper?—A. I am sorry; I have not got that here.

The CHAIRMAN: May, 1930.

By Mr. Power:

Q. And it walked out when?—A. Walked out $1\frac{1}{2}$ years later.

Q. A year and a half later?—A. Yes, possibly. I should say about two years.

Q. Can you tell us how it came about it was in and out?—A. There was a collateral clause. When the newsprint got in difficulties, we had the obligation of paying the preferred dividends of that company. They had a high capitalization and those in charge of the company at the time—that was after my connection had ceased—thought it would be better for them to relinquish the company than pay the preferred shares, so they did it, and got back their own shares. The transaction was just cancelled, as I understand it.

The CHAIRMAN: They took their own shares back?

The WITNESS: Yes.

By Mr. Power:

Q. Now, looking back on all this, would it not have been better if Canada Power and Paper had never been formed?

The CHAIRMAN: Well, Mr. Power, before you come to draw conclusions, and having regard to the character of the inquiry, I would like to have on the record, if you will allow the suggestion, who the bankers were of those constituent companies, taking them from the beginning. For instance, who were the bankers of the St. Maurice Valley corporation?

Mr. IRVINE: May I also ask, Mr. Power, that you put on the record the name of the present corporation or merger, and also a list of all the companies included in the merger, giving the chronological order of their being consolidated, because there are so many Chicoutimis, and Wayagamacks and Port Alfreds and so on, that I do not know where I am.

Mr. POWER: Perhaps I had better try to summarize the constituent companies of Canada Power and Paper as they stood in 1930 when the merger was completed.

The CHAIRMAN: I think that a good idea. Just get the layout, if you can, of Canada Power and Paper.

Mr. POWER: I will try to get the capitalization of them. I am afraid I won't be able to give the capitalization, but if there is someone here who can give it to me, I shall be pleased.

The CHAIRMAN: They have it here, or they should have it here.

Mr. POWER: I shall try to get the capitalization as I go along. Canada Power and Paper in 1930 was composed of what? What was its capitalization; just let us see that?

The WITNESS: I will have to get the secretary to give us those details, because the balance sheet—

The CHAIRMAN: I had a total of 750,000—$10,000,000 capital no par value stock.

Mr. POWER: I want to get the capitalization of Canada Power and Paper in 1930 when the merger was completed.

The CHAIRMAN: The memoranda I have from the Companies Branch show that the company was incorporated by letters patent on the 10th January, 1928, under the Quebec Act, with an authorized capital of 750,000 shares, no par value, and the amount of capital with which the company was to begin business was $3,750,000. On the 25th October, 1929, supplementary letters patent were issued under the same act increasing the capital stock by the amount of $6,250,000, making a total of $10,000,000 common, no par value.

Mr. HACKETT: That is only the authorized capital.

The CHAIRMAN: Yes.

Mr. HACKETT: Why don't we ask the secretary?

The CHAIRMAN: We should get that picture. If they put in the balance sheet at the time of the merger, it would give us the whole picture.

Mr. POWER: I have here a balance sheet dated February 27, 1931, balance sheet of Canada Power and Paper Corporation—that probably was the last year in which it was in existence, was it not?

The WITNESS: I think so.

Mr. POWER: Am I right, Mr. Secretary?

The CHAIRMAN: Yes.

Mr. POWER: And I think we can put it in the record? I do not want to show it all, but may I say that the assets at the time amounted to $212,974,611. It was a paper company.

The CHAIRMAN: Yes.

Mr. COOTE: The millions must have been made with the printing press.

The CHAIRMAN: I should like to ask when the final set-up of the company was made, had there been any "water" put in the stock of Canada Power and Paper Company?

The WITNESS: No.

The CHAIRMAN: As we ordinarily understand the term. I ask you if in the set-up there was any "water"?

The WITNESS: No, none at all.

Mr. IRVINE: No, all steam.

The CHAIRMAN: Let us be serious about this.

Mr. IRVINE: That is serious.

The CHAIRMAN: The suggestion has been made that this company was watered up when it issued securities to the public.

By Mr. Power:

Q. May I go back and ask Mr. Gundy for a statement of the constituent corporation before we come to draw our inferences? The companies in the Canada Power and Paper Corporation as given in the annual statement of 1931 which has just been filed, were—

[Mr. J. H. Gundy]

Mr. HACKETT: May I interrupt there? Would it not be well to ask Mr. Power to put in the liabilities, since he has given us the assets?

The CHAIRMAN: The whole thing is going on the record. It will be spread out if you want it.

By Mr. Power:

Q. The companies in chronological order were, first, St. Maurice Paper Company, which in 1925 was merged with Belgo-Canadian?—A. Yes.

Q. And it became the St. Maurice Valley Corporation? This corporation controlled the Belgo-Canadian Paper Company, but having merged with them in 1925, it also controlled the Canada Paper Company, acquired in 1926?—A. Yes.

Q. Then, in 1927 was formed the Canada Power and Paper Corporation to take over the St. Maurice Valley Corporation, and Laurentide Company Limited.

Mr. GAGNON: 1928, you should say.

By Mr. Power:

Q. Pardon me. This new company, the Canada Power and Paper Corporation therefore controlled the Laurentide Company?

The CHAIRMAN: And subsidiaries.

By Mr. Power:

Q. And its subsidiaries, among which was the Laurentide-Ottawa Company and some small subsidiaries?—A. Yes.

Q. The next step was the taking over of one-third interest of the Anticosti Corporation by St. Maurice Valley. That was an intermediate step in 1925. A one-third interest in the Anticosti company was purchased by the St. Maurice valley, but I can say here, and Mr. Gundy will bear me out, that all the shares of Anticosti Corporation eventually fell into Canada Power and Paper?—A. Yes.

Q. Owing to the fact that the three interested companies, namely Port Alfred Pulp and Paper Corporation, Wayagamack Pulp and Paper Company and the St. Maurice Valley Corporation became constituent parts of Canada Power and Paper Corporation.

The CHAIRMAN: Through stock ownership.

By Mr. Power:

Q. Through stock ownership, so that Anticosti also joined up with the merger?—A. Yes.

Q. The next step was Port Alfred; or did Port Alfred come before Wayagamack?—A. Some time.

The CHAIRMAN: September, 1929.

By Mr. Power:

Q. In September, 1929, Port Alfred became a part of Canada Power and Paper through exchange of shares. In 1929 also Wayagamack Pulp and Paper Company became a part of Canada Power and Paper, and then in 1930 Anglo-Canadian became, for the time being, a part of Canada Power and Paper. That is the lot, is it?—A. Yes.

The CHAIRMAN: Just there, Mr. Power, could we put on the record the stock issue of Canada Power to those five constituent companies? I have it here, if you like. St. Maurice Valley Corporation, 400,000 shares; Laurentide Company Limited, 288,000 shares; Port Alfred Pulp and Paper corporation, 330,000 shares; Wayagamack Pulp and Paper company limited, 200,000 shares;

[Mr. J. H. Gundy]

Anglo-Canadian Pulp and Paper Mills, 303,750 shares, which makes 1,521,750 shares.

Mr. POWER: I suggest the capitalization of Canada Power and Paper company had increased some time, because eventually it was 750.000—

The CHAIRMAN: I told you on the 25th October, 1929, supplementary letters patent were issued increasing the amount by $6,250,000, no par value, and the total issue would be 10,000,000, and on the same ratio the number of shares would be—I will have to work that out.

By Mr. Power:

Q. What was the price range on the market of the shares of Canada Power and Paper?—A. I cannot—

Q. It ran up to about 60?—A. I would not be surprised.

The SECRETARY: 54.

Q. Now, Canada Power and Paper was reorganized in 1931, or was it 1932? —A. No, 1931.

Q. And became consolidated?—A. Yes.

Q. What is the name now?—A. Consolidated Paper—

The CHAIRMAN: Before you leave that, would you revert to the question of bank arrangements. I think it ought to be spread on the record just who the bankers were of those constituent companies?

Mr. POWER: All right. Are you working out the total issue of shares?

The CHAIRMAN: Yes.

Mr. GEARY: Is that 750,000 a supplementary—

The CHAIRMAN: The bylaw reads the stock was increased by the amount of $6,250,000.

Mr. GEARY: 7,000,000 shares.

The CHAIRMAN: No. May I say that on the 31st December, 1930, the number of shares was 1,521,750, out of an authorized 2,000,000.

By Mr. Coote:

Q. Would it be right to ask this: was there an issue of $35,000,000 collateral trust debentures?—A. These debentures were exchanged, 28,000,000 with the Laurentide shareholders who received 28,000,000 of them, and the other 7,000,000 went to the shareholders of Wayagamack. There was no sale to the public by the company; there was no sale of any security by that company to the public at any time.

Q. Was there in any way a duplication of the common stock?—A. No.

The CHAIRMAN: It was a liability; securities issued to pay for shares of constituent companies.

By Mr. Power:

Q. You said the company was reorganized and formed into Consolidated Pulp and Paper corporation?—A. Yes.

Q. Who were the bankers of the St. Maurice Valley Corporation?—A. Royal Bank of Canada.

Q. Who were the bankers of the Laurentide company?—A. Bank of Montreal.

Q. Who were the bankers of the Port Alfred company?—A. Bank of Montreal.

Q. First the Molsons, and later taken over by the Bank of Montreal?—A. Yes.

[Mr. J. H. Gundy]

Q. Who were the bankers of the Wayagamack?—A. Banque Canadienne Nationale.

Q. Who were the bankers of Belgo?—A. When they became part of the St. Maurice Valley company, which was when we became interested, it was the Royal Bank.

Q. It became the Royal Bank as soon as it went into the merger?

Mr. GAGNON: The president of the Belgo-Canadian was Sir Herbert Holt.

Mr. SPENCER: They changed their bankers after the merger?

The WITNESS: I do not remember whether the Royal Bank was the banker before the merger or not, I was not interested.

The CHAIRMAN: They were not.

Mr. WILSON (General Manager, Royal Bank of Canada): We were not.

By Mr. Power:

Q. Mr. Wilson says they were not. Who were the bankers of the St. Maurice Paper Company before the amalgamation?—A. I think it was the Bank of Toronto.

Mr. GAGNON: I see that the president was Sir Herbert Holt.

The CHAIRMAN: Yes. And the Anglo-Canadian?

By Mr. Power:

Q. Who were the bankers of the Anticosti Corporation?—A. The three banks.

Q. The three banks interested in the companies which purchased?—A. Yes.

Q. Who were the bankers of the Canada Power and Paper?—A. The bank of Montreal and the Royal Bank?—A. I suppose so.

Q. I suggest to you they were, 50-50; is that right?—A. I would think so. I do not know how the banks worked that, I am sure.

Mr. WILSON: Yes.

The CHAIRMAN: And the Anglo-Canadian?

Mr. POWER: Who were the bankers of the Anglo-Canadian?

Mr. WILSON: The Royal Bank.

By Mr. Power:

Q. In all these dealings, Sir Herbert Holt was associated with you owing to the fact that Holt-Gundy were interested in it; is that a fact?—A. No; my relations with Sir Herbert Holt far antedated the formation of Holt-Gundy and company. It did not follow at all, because he and I were interested in the deal, that Holt-Gundy and Company were interested in it. Holt-Gundy and Company would take an interest in a deal if they saw a chance to make a reasonable profit, and that is the basis on which they operate.

Q. In any event, you and Sir Herbert were associated in a great many of those transactions?—A. Yes.

Q. Let us say all of them in which your name and that of Sir Herbert appear on the board together?—A. I think likely.

Q. You think it is likely. You said some time ago; up to a certain point—I do not remember for the moment,—you had made nothing, either for yourself or the companies, the investment banking company with which you were connected in those transactions?—A. Well I think I have a heavy financial loss to credit on those transactions at the present time yes.

The CHAIRMAN: What Mr. Power is asking is this: was there any profit in the process of amalgamation of any of those companies? That is a pretty definite question.

[Mr. J. H. Gundy]

The WITNESS: I think so. We made profits from time to time out of the sale of securities. For instance, when we sold preferred stock of Port Alfred, on the balance of Port Alfred we made a profit. If we made a loss it was bad judgment, that is all.

The CHAIRMAN: Mr. Gundy, Mr. Power wants to know, and I think the public would like to know, if in the process of the amalgamation and the purchase of the shares of one company and the sale to Canada Power, there was any profit made by any investment bankers or anybody else?

The WITNESS: No. There were no investment bankers or financial houses which had any interest in the amalgamation in Canada Power and Paper.

By Mr. Power:

Q. You mean profits in money?—A. Profits in money or shares or anything else.

Q. Did you transfer money profits in the way of shares?—A. No.

Q. Which at that time could have been sold at a profit in money?—A. No. You want to ask me if I speculated in Laurentide at the time? I did not.

Q. I am glad you suggested it?—A. I was just wondering if that was in the back of your mind; because I did not deal in the shares at all; nobody associated with me did.

Q. When Canada Power and Paper was completed, how many shares of it did you have?—A. Canada Power and Paper? I don't know; I have no idea.

Q. You have pretty heavy holdings?—A. Yes; quite substantial holdings, largely through Port Alfred.

Q. Largely through receiving $2\frac{3}{4}$ shares for your Port Alfred?—A. Yes.

Q. But a little bit from the—A. St. Maurice.

Q. Not from Wayagamack?—A. No.

Q. Not from any of the other companies?—A. No.

Q. The two companies in which you profited in shares were Port Alfred and St. Maurice?—A. I received shares; I did not profit in them.

Q. You received shares?—A. Yes; no profit in them.

Q. But had you sold them at the time they would have given you a very nice profit?—A. Oh, I suppose so, yes.

By the Chairman:

Q. Did you receive any different terms from any of the other shareholders? —A. No, sir.

By Mr. Power:

Q. You received no special benefit?—A. No, sir.

Q. To repay you for the work?—A. No, sir.

Q. And the labour of bringing about this amalgamation?—A. Not any.

Q. Now, you were assisted in this work to a considerable extent by the fact that Sir Herbert Holt was associated with you, were you not?—A. In bringing in Canada Power, I do not think so.

Q. Don't you think that the fact that you let it be known Sir Herbert Holt and you were working together helped the work?—A. In many cases it was a great help to me, but in this particular transaction it was a transaction between two sets of shareholders. They made up their own minds as to whether this deal was in their interest or not, and they did not care whether Sir Herbert and I were interested or not. In fact, we were interested.

Q. In bringing Port Alfred in Canada Power and Paper, you were helped by the fact that Sir Herbert Holt was interested?—A. What happened in connection with Port Alfred was this; that at the time we made the merger between Laurentide and St. Maurice, we brought Port Alfred—now, mind you, we had a

[Mr. J. H. Gundy]

very substantial interest in Port Alfred and Mr. McKee was president. We went to him and said, "What do you say if we bring Port Alfred in?". He said, "No." That was the end of it, and then as we got along, through a year of operation, he changed his mind, and said it was a good thing to do, and we did it.

Q. Did you close Port Alfred when it went into Canada Power and Paper?—A. I do not think so.

Q. You did not close the mill?—A. I have no recollection of it having been closed. Port Alfred did not close when we went into Canada Power?

The SECRETARY: No.

By Mr. Power:

Q. Did the St. Maurice Valley mill close shortly after you went into Canada Power?—A. I do not recall it did. If it closed it was because we did not have enough business.

Q. Did it assist your credit to have it generally known that you and Sir Herbert Holt were associated in those transactions?—A. I do not think so. I have said we were dealing with the Bank of Montreal, on Port Alfred, and they asked us whether Sir Herbert was in it. As a matter of fact, he was not much interested.

Q. Did it assist you in the sale of any securities to the public? Did the fact that the name of Sir Herbert Holt was associated with you on the prospectuses assist you in the sale of securities to the public?—A. I suppose—I think that all names on the directorate of those companies were useful in varying degrees; because of Sir Herbert Holt's prominence and success in business, his name was more influential than any other name there,—I hope it was; I felt it was.

Q. How much did Canada Power and Paper owe the two banks, the Bank of Montreal and the Royal Bank at the time of the annual statement in 1931?—A. $14,588,000.

Q. They owed the bank $14,588,000?

The CHAIRMAN: Secured how?

The WITNESS: Inventories, receivables, investments and so on.

Mr. SPENCER: Fully.

The WITNESS: Depending on how much a ton of pulpwood was worth.

By Mr. Power:

Q. What was the amount of loan to the bank that was guaranteed by the new Consolidated Paper company?—A. Well, the net working capital of St. Maurice, when it went in the merger, according to the balance sheet, was $8,892,000, Laurentide $6,540,000, Port Alfred $5,101,000—I have not got the Wayagamack figures.

Q. At the time Canada Power and Paper was reorganized into the Consolidated Power and Paper, how much was owing the banks?—A. About $14,000,000.

Q. About the same amount as was owing in— —A. December 31, 1930.

Q. Is that the statement on which the reorganization took place?—A. I am inclined to think so.

Q. And they still owed the banks at that time $14,000,000 and some odd thousand?

The CHAIRMAN: What was that again?

Mr. POWER: $14,000,000 odd. I do not suppose you would know how much Consolidated Paper owes to the banks to-day?

[Mr. J. H. Gundy]

The WITNESS: No.

Mr. GAGNON: I have a report here stating that the balance due is $6,395,000.

Mr. POWER: Which bank?

Mr. GAGNON: Consolidated Power and Paper company and other special bank loans, $8,409,000.

The CHAIRMAN: What is the date?

Mr. GAGNON: December 31, 1933.

By Mr. Power:

Q. On December 31, 1933, Consolidated Paper, which had succeeded Canada Power and Paper, still owed the bank approximately $14,000,000?—A. Yes.

Q. Now, what I think the public would like to know from you, Mr. Gundy, is what is approximately the value of the shares, let us say, in Laurentide for which investors in 1928 paid $134? What is approximately the value of that share to-day?

The CHAIRMAN: Are you speaking of market value?

Mr. POWER: Market value.

The WITNESS: I do not know.

By Mr. Power:

Q. Would you say nothing would about represent it?—A. No.

Q. What is that?—A. No.

Q. If, in 1928, you had invested $139 in the Laurentide company, shares which were then paying 6 per cent dividend, what would you be getting out of it to-day?—A. I do not know.

Q. You cannot tell us; could anybody tell us?—A. I doubt it.

Q. You cannot tell us?—A. I have not that information.

Q. You think it could be worked out?—A. I suppose it might be.

The CHAIRMAN: That was on the reorganization?

Mr. POWER: I should like, if it is possible, to have it worked out. I do not know who can do it, but we have a number of bankers here, and perhaps they can work it out. I should like to have worked out first, what would have been the appreciation in value of a $100 share in Laurentide purchased in 1887; what would it have been worth in 1928, and what would it be worth to-day?

The CHAIRMAN: I hope you are not asking me to do it?

Mr. POWER: I am not going to ask you, but can you suggest if we can get someone to figure that out?

By Mr. Power:

Q. Mr. Gundy, can you work that out for us?—A. No, sir.

Q. You are an expert on figures?—A. Let me give you a figure just to illustrate the difficulty about that particular thing. In May, 1929, United States Steel Corporation, which is quite a strong company, sold its shares to its shareholders at $140 a share. In September, 1929, there shares sold at $261¾. In 1932 they sold at $21, less than one-tenth of what they sold a year previously. Now, you say what were they worth in 1929, what were they worth in September, 1929, six months later, and what are they worth to-day? Nobody in the world knows. If you can tell me how much newsprint the publishers are going to buy and what they are going to pay for it, and whether the men at the head of the newsprint industry are

going to quarrel or work together harmoniously, and if you are going to say what the general trend of trade in the world will be, and settle all these things, then you begin to get a basis on which to figure out the value of newsprint shares.

Q. I am not talking about the United States Steel. I suggest to you, Mr. Gundy, that the shares in all those constituent companies first, and secondly the shares in Canada Power and Paper were enormously over-valued, as compared with the physical assets; is that a fact?—A. If it was a fact, the over-valuation was by the general public, which none of us control.

Q. The over-valuation was by the general public?—A. Certainly.

Q. That is to say the general public more or less fell over themselves in their endeavours to buy pulp and paper securities?—A. Including you and me.

Q. Yes.

The CHAIRMAN: The shares went up to 97, but at the same time they were never intrinsically worth that.

By Mr. Geary:

Q. What did the shareholders of Laurentide get for their holdings when they went into the Canada Power and Paper?—A. One debenture and one share of common.

Mr. POWER: One no par value of common, and one debenture.

Mr. HACKETT: Do you mean Consolidated Power and Paper Company?

The CHAIRMAN: No. Canada Power.

By Mr. Power:

Q. Was not the control of the Newsprint Institute, which was a body formed to regulate the market for newsprint, one of the objects that you had in mind when you went into this deal?—A. No, sir.

Q. But effectively you did have a large control of the newsprint industry?—A. No, sir, had no control whatever.

Q. What was your output when Canada Power and Paper was completed; what was the output of newsprint both possible and real in tonnage?—A. 2,500 tons a day.

Q. Does that include Anglo?—A. Yes.

The CHAIRMAN: What percentage of that was Canadian production?

By Mr. Power:

Q. The production of Canada Power and Paper was approximately 2,500 tons per day?—A. Yes.

Q. What percentage was that of the total Canadian production?—A. I suppose about 22 or 23 per cent.

Q. Of the Canadian production. I am not speaking of the world's production.—A. It is 22 or 23 per cent of the Canadian production.

Q. So that you were a man of some influence on the Canadian Newsprint Institute?—A. I think you are flattering me now, Mr. Power.

Q. You had a 22 per cent interest, if you had nothing else?—A. I did not own those shares; I did not control that company; I was not an officer of it.

Q. You represented those companies in the meetings of the Institute, did you not?—A. Not entirely.

Q. Mostly?—A. No. Mr. Whitehead was the chairman of the Newsprint Institute until the time of the merger and then Mr. Price became the Chairman, and the Chairman was the man who dominated the Institute.

By the Chairman:

Q. Were you never at any time an officer of Canada Power and Paper?—A. Yes, I became an officer of Canada Power and Paper in the summer of 1930.

Q. Because this annual statement for 1930 is signed by you as president.—A. Yes.

By Mr. Power:

Q. Sir Herbert Holt was the chairman of the board at the time?—A. Probably. Does it say so there?

The CHAIRMAN: He was chairman of the board and Mr. Gundy was president, and Mr. Geo. M. McKee senior vice-president, and Mr. C. R. Whitehead, executive president.

Mr. GAGNON: What year?

The CHAIRMAN: The year ending December 31, 1930.

By Mr. Power:

Q. Now, I suppose you had fairly intimate dealings with the banks during all this time. Were you encouraged by the banks or any of them to go on with this expansion?—A. No.

Q. Did they discourage you?—A. Well, they discouraged me in this way, that they took the position, some of them, that it was a waste of time to try to get the industry organized.

Q. Your object was to organize the industry?—A. For its own protection.

Q. So as to regulate prices?—A. So as to prevent destruction of the industry.

Q. I beg your pardon?—A. So as to conserve the industry, not to raise prices.

Q. Not to raise prices?—A. No, we never tried to raise prices, certainly never succeeded in raising prices anyway.

The CHAIRMAN: You were trying to keep the prices from falling?

The WITNESS: Yes.

By Mr. Power:

Q. In order to do that you set out to control a large number of mills?—A. No, not to control them but to bring them into harmonious groups.

Q. Into your group?—A. It was not my group.

Q. It could not help but be harmonious if you ran it?—A. It was not my group.

Q. The group with which you were connected?—A. Yes.

Q. You did, as a matter of fact, bring a large number of paper mills into that group?—A. Yes.

Q. Just here, can you tell me or can the secretary tell me what was the area of timber limits or free-hold lands held by the Canada Power and Paper Company in 1931?—A. The gentleman says that it was about 20,000 square miles of timber limits, and about 3,500 square miles of free-hold land, and Anglo-Canadian controlled 4,000 square miles.

The CHAIRMAN: 3,500 square miles of free-hold would be Anticosti, would it not?

Mr. POWER: Largely.

The WITNESS: Largely, yes.

By Mr. Howard:

Q. Mr. Chairman, when the witness was purchasing or looking for the agreements he must have had in the back of his mind some figures as to the

earning capacity of every purchase. Was he satisfied that the earning capacity was— —A. Yes.

The CHAIRMAN: Could we have the profit and loss accounts of the Laurentide Company and other companies. They would speak for themselves. That is why I have been anxious to have the balance sheets in. I think they might be put in.

The WITNESS: Mr. Hodgson, will you bring them?

The CHAIRMAN: Don't you think it is a better way to get the picture?

The WITNESS: You see, Mr. Howard, this is the last report of the Laurentide, June 30, 1927. At that time the earnings were $2,776,067. That is the total earnings. Then, their interest and other charges were $1,028,576, leaving profits for the year of $1,747,490. Now, that is over 6 per cent, on the shares of Laurentide. In Canada Power and Paper, the interest on the debentures was only $5\frac{1}{2}$ per cent, so that there was a fair margin over the requirements of the financing.

By Mr. Howard:

Q. On that statement, let us not get away from that for a moment. What year was that?—A. The year ending June 30, 1927.

Q. That gives the interest on the Laurentide as 6 per cent?—A. Yes.

Q. For that stock in the amalgamation you gave $2\frac{3}{4}$ shares of— —A. No, we gave a share, one share and one debenture.

Q. No par value, and one debenture at $5\frac{1}{2}$ per cent interest?—A. Yes.

Q. Now, the amalgamation purchased Canada Paper, Windsor Mills?—A. Simply an exchange of shares. We gave 10,000 shares of St. Maurice Valley for their shares.

Q. You gave 10,000 shares of St. Maurice Valley for their shares?—A. I think we gave them one share for $2\frac{1}{2}$. We gave one share of St. Maurice Valley for 2 shares of Canada Paper Company.

Q. In other words, you sold that property; what were the conditions of the sale?—A. That property was afterwards sold to—

Q. Howard Smith?—A. Howard Smith; I cannot tell you when.

Q. You see, Mr. Chairman, what I am trying to get at is this: one of the properties purchased was afterwards sold, and I should like to know if they made a profit or loss?—A. I think they made a loss for this reason, that the St. Maurice Valley corporation found that the business of Canada Paper was not a business that fell in well with their business; that Canada Paper did make some newsprint, but the newsprint business was transferred to the other mills, and it was felt that the St. Maurice organization was not suited to that type of business. The Howard Smith people knew that business, knew how to do it, and it was considered a desirable thing to put the property in the hands of people who were experts in the business.

Q. But the fact remains that from the standpoint of the public this plant was purchased and afterwards was sold through agreement and Canada Power and Paper took a loss on the transaction?—A. I am inclined to think they took a loss, although I do not remember definitely.

Q. Does the Canada Paper still own stock of Howard Smith?—A. I beg your pardon?

Q. Does Consolidated Paper still own those shares?—A. Of the Howard Smith, yes, I think so.

Q. Then, you took this famous deal of Anticosti—by the way, did the directors of the company taking it over have reports as to the cost of the production of wood on Anticosti and delivering it?—A. Yes.

[Mr. J. H. Gundy]

The CHAIRMAN: Before you go into that, would you finish up your original question, namely the value of the shares of those constituent companies. Do you want to pursue that any further?

Mr. HOWARD: No, no further than to show they took a loss.

By Mr. Howard:

Q. What is the value of the Howard Smith stock held by Canada Power to-day?—A. About 20,000 shares, and the market value was about $200,000.

Q. What was the value of the stock that you gave at the time you purchased Canada Paper?—A. Very much less. You see, the shares that we gave to Canada Paper are now represented by a very very small amount of common shares of Consolidated Paper.

Mr. COOTE: It has been wiped out in the meantime?

The WITNESS: Pretty nearly.

Mr. COOTE: Are we going to get that story?

The CHAIRMAN: I gave him the opening if he wants to follow it up. You were starting in, Mr. Howard, to get the value of the shares of the constituent companies in Canada Power. Do you want to follow that any further?

Mr. HOWARD: What I was trying to get was this, that the directors controlling these companies at the time they purchased, just taking this one, for instance, at the time they purchased the Canada Paper with mills at Windsor Mills they gave so many shares of their company. I want to get what that was worth, and then they took it back and gave 20,000 shares of Howard Smith.

The WITNESS: Howard Smith shares are much more valuable than the St. Maurice Valley, or than the Canada Paper shares.

By Mr. Coote:

Q. The Howard Smith then got a poor deal?—A. Yes, if anybody did, although it is very hard to put anything over Mr. Crabtree, of Howard Smith.

By Mr. Howard:

Q. Now on the Anticosti Island deal, there must have been some report submitted to the directors at the time on the cost of the wood?—A. Yes.

Q. May I ask how those reports panned out?—A. The story of the Anticosti operations was not a very satisfactory story at all.

Q. It was terrible?—A. I wouldn't even go that far.

Q. How many cords of wood were delivered from Anticosti?—A. Quite a good deal of wood, but you see when the industry began to slump you found all those mills with great piles of wood, and they lay there for several years on account of the shrinkage in demand. I understand it was only in the last year that the Consolidated Paper Company has used up old wood piles. There has never been a sufficient demand for wood to make it worth while to operate.

Q. Yes, but that possibly is due to conditions that we went through, but as a matter of fact had conditions not been as they were the wood from Anticosti, every cord of it cost this outfit at least $10 a cord more than they could buy wood anywhere else in the country?—A. I do not believe that, but it may be true.

Q. Well now, for that reason, I say that you must admit that the directors possibly did not use very good judgment in the matter?—A. I would not admit that. I think that the story of Anticosti has still to be written. I was talking to a man who is in the paper business the other day, and he tells me that the close-in wood to these mills is beginning to become scarce, Mr. Power will know about that, and that some of these days they are going to pay more for their wood.

[Mr. J. H. Gundy]

Q. Is it not a fact that even the loading plant and the equipment plant has been dismantled and moved away and the operation of Anticosti entirely closed?—A. Well, I do not think they have been cutting any wood there, or anywhere else for that matter in the last few years.

Mr. Howard: Mr. Chairman, I would like Mr. Gundy to be clear on the point, I am sure that he knows and if not he can ask one of the other witnesses, if the loading plant which cost lots of money, and the equipment consisting of trains and hoists, and all the rest of it has been dismantled and taken away from the Island.

The Witness: Well you ask these experts, they know all about it.

By Mr. Howard:

Q. Well, Mr. Gundy, are you a bank director?—A. No, sir.

Q. Have you been?—A. No, sir.

Q. Then may I ask you this question: When these securities at different times during these amalgamations were sold to the public, did anybody underwrite or sell first hand the securities except Holt, Gundy and Wood, Gundy?—A. Are you talking about Canada Power & Paper?

Q. I am talking about each one of them, as you wanted to raise the money from the public to supply capital for the different ones?—A. Well, in the case of Canada Power & Paper there was no underwriting at all. In the case of the financing of Port Alfred that was done under the auspices of Wood, Gundy & Co. We associated with ourselves other investment houses as might be suitable.

Q. But nobody handled the issue except Wood, Gundy & Co. and Holt, Gundy & Co., the original issue?—A. I think we had partners from time to time who were on the same basis as ourselves; we usually did.

The Chairman: What you are trying to get at, Mr. Howard, is the spread between the amount received for those securities and the amount the public paid.

Mr. Howard: That is not quite the point, Mr. Chairman.

The Chairman: That is a very important point.

Mr. Howard: That is getting pretty close home. What I was trying to get, Mr. Chairman, was this: I just wanted to know if any other firm except Holt, Gundy and Wood, Gundy handled the securities?—A. You are not correct in that, Mr. Howard. For instance, a case in point, take the Belgo transaction, we did not handle the preferred at all in that transaction. It was handled by some other house or houses, I suppose half a dozen of them, I don't know the exact number.

By Mr. Howard:

Q. Do you know who sold the securities? You mentioned the preferred stock?—A. Belgo?

Q. Yes?—A. I could find that out for you easy enough. I will find it out and let you know.

Q. But are you positive that the Holt, Gundy Co. did not take the issue and then hand it over to someone else?—A. Yes. So far as that particular issue of preferred was concerned we did not at that time handle any preferred. That is why I am sure we did not handle that one, because up to that time we had not sold any preferred shares.

Q. But would it be possible for Holt, Gundy & Co. to write the issues for so much money and then other brokers handle it in the usual course of business?—A. That did take place in many cases, of course.

Q. Was there any special reason for the formation of the firm of Holt, Gundy & Co?—A. Let me see now. It is a company, you know. The reason for the formation of Holt, Gundy & Co. was to create additional financial

machinery to carry larger transactions. The Wood, Gundy Co. had a very big retail business, handling government and municipal bonds and other securities, and this new company was an additional machine for financig. It is an investment company.

Q. Is this a fact that the firm of Wood, Gundy & Co. have practically always dealt in what we call A1 securities, and when you went into the paper securities you took on another firm?—A. Oh, no.

Q. That has nothing to do with it?—A. Nothing at all.

Q. Well, do you think that the fact that both names, Holt, Gundy, and the people affiliated with you, would not have some effect; would it not be natural that the public would be impressed by that, as to whether the scheme would be good or bad?

The Chairman: That is a matter of opinion.

The Witness: There is an answer to that thought, because I have this thought: Those pulp and paper securities are distributed undoubtedly among very many investors all over Canada, but a very substantial proportion of them are owned by the most expert, most experienced, most skillful investors in Canada, and in England, and in the United States, so that the little private investor out in the country who feels very badly about losing his money can have the consolation, if it is any, that the most skillful, shrewd, experienced investors in the world made the same mistakes that he made, if they are mistakes, because after all you can take the general range of securities all over the world and the experience of these newsprint investors is very little different from the experience of all kinds of investors all over the world. We have had a tremendous depression. I talked about United States Steel because it is one of the strongest corporations in the world and their shares sold for less than one-tenth of their proper value. Even if you had government bonds you could have lost 10 or 15 points at one stage.

Q. The only thing is they came back nicely?—A. Well then, those other things are coming back. As a matter of fact, you have missed the low point. I think some of those securities are selling at three or four times what they were selling at a year ago.

Q. I think you will also admit, Mr. Gundy, that the stock that has been wiped out by the change in capitalization will never come back?—A. Well, I am in a good position to know that because I probably suffered more in that regard than anybody else in Canada.

Q. The firm of Holt, Gundy & Co. in financing its operations have had loans at the banks?—A. Very little. Holt, Gundy & Co. did not deal with the bank much. The very fact that Sir Herbert was in the company was the reason why we did not do financing through the banks and especially with the Royal Bank. If you knew Sir Herbert as well as I did, you would understand that.

Q. Well, would it be possible to have the amount, I might say the minimum and the peak of loans during 1925, 1926, 1927 and 1928?—A. Is not that our private business? I have no objection to telling it to you, but I do not want—

Q. I mean as far as pulp and paper is concerned?—A. Sure. It did not amount to anything.

Q. And would the same answer apply to Wood, Gundy & Co?—A. The same.

Q. The same thing?—A. Sure. I mean to say, that the proportion of our loans at any time covered by paper securities is simply infinitesimal. We never carried loans on paper securities; it was not necessary. The public were so anxious to get them they were sold before they were bought almost.

Q. Was that in view of the names heading the list?—A. These men who bought the bonds were intelligent men. They knew that the paper industry had a wonderful record of interests.

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Mr. HOWARD: Mr. Chairman, the witness probably is not acquainted with the evidence given by the banker witnesses. Might I say for his information that the bankers told this committee that they foresaw the depression coming, and that their orders before it struck were,—they were advising their clients and telling them to unload and to cover the amount on deposit of their securities and so on.

The CHAIRMAN: That was against speculation though.

Mr. HOWARD: We are talking about the securities of these companies

The CHAIRMAN: I think the questions were directed against speculation.

Mr. HOWARD: In stocks held on margin and stocks held as collateral by the banks.

By Mr. Howard:

Q. Well, if that were the case with the bankers, were the directors of the Canada Power & Paper also as farsighted as that?—A. Their problem was an entirely different problem. They were a going concern, but I will tell you one thing, we were the first to stop building mills.

By the Chairman:

Q. Did they build any new mills?—A. They built no new mills, in fact, they put in their last new machine in 1926. In 1926 the industry was running to 95 per cent of capacity, and after 1926 there were put in more mills equivalent in capacity to all the mills that were put in in the history of the industry up to that time, and that is the thing that ruined the industry. We did not put one, not one. A young chap gave me a chart yesterday which is very interesting, and I would like—if it would be interesting—to pass it round. It shows this, that up until 1929 United States imports increased in a parallel line with the increased capacity of mills. In 1929 there was a sudden disappearance of that importation into the United States but the building of new mills in Canada went ahead, up till 1931. That is the reason that your newsprint securities are not profitable. That young fellow that drew that chart has given us the answer. (For chart, see Appendix AF.)

By Mr. Howard:

Q. There is no doubt, Mr. Gundy, that that statement is fairly true, but it does not change the fact that when they endorsed the Anticosti Island deal it was a bad deal even if we had not struck any depression. People who are in the business happen to know a lot about it too. May I ask this question. On the board of Canada Power & Paper directors, say in 1930, how many bankers were on the board?—A. You mean—

Q. Members of your board who were bank directors?—A. Oh yes, when the company was organized?

Q. Yes?—A. This is the first report. When the company was organized the directors, who were also directors of banks, were Sir Herbert Holt, Sir Vincent Meredith, Sir Lomer Gouin, Mr. J. W. McConnell, and Mr. C. B. McNaught.

Q. Five?—A. Four really, Mr. Connell replaced Sir Vincent who died.

Q. How many other directors?—A. Twelve.

Q. Could you tell me of the other twelve how many were pulp and paper men?—A. Chahoon, McKee, and Sabbaton, that is all.

Q. Three?—A. Three, yes. Of course, Mr. Whitehead afterwards. I will tell you, perhaps this is more what you want: In December, 1930, there were Geo. Chahoon, Jr., H. Crabtree, Geo. M. McKee, The Viscount Rothermere, C.

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Howard Smith, C. R. Whitehead, F. A. Sabbaton, and F. W. Clarke, eight paper men on the board.

Q. Yes, but two of them of course, went out,—Mr. Crabtree when it changed over to Howard Smith— —A. Oh no, he is still on.

Q. And Frank Clarke went out?—A. Yes, and Viscount Rothermere.

By Mr. Power:

Q. I do not think you can call Lord Rothermere a paper man?—A. No.

By Mr. Howard:

Q. Of the original directors three were bankers and three were paper men?

The CHAIRMAN: What do you mean by bankers?

By Mr. Howard:

Q. Well, bank directors. Leaving out the Anticosti deal, when you took over the Port Alfred Pulp & Paper Co. with fifteen millions dollars of bonds, I suppose carrying 6 per cent?—A. $5\frac{1}{2}$ per cent.

Q. And $6,000,000 of preferred stock, which was $21,000,000, and 60,000 shares of common stock which went from 25 to 140, take it for arguments sake, at per $100— —A. You could not do that. It is no par value stock.

Q. And you gave in exchange for that $2\frac{3}{4}$ shares of Canada Paper for each share?—A. Yes.

Q. Would you call that a good deal?—A. Why certainly I would call it a good deal.

Q. Basing it on the value of Canada Paper stock, or on the physical assets of Port Alfred?—A. We based it on this, that it was unanimously approved by the people that owned all the shares in both companies. Now, when you get a company, with all the shareholders in both companies approving it, endorsing it and accepting it, I think that is a pretty good deal, because after all they are the judges as to what is going to happen to their own property.

Q. How long after that was taken over before they defaulted on the interest?—A. Let me see, it was about two years.

Q. About two years?—A. Yes, sir.

Q. When did the first default take place?—A. Oh, in 1931.

Q. Yes. It was stated just a few minutes ago that the loans of the company were about $14,000,000 as December 31st, 1930?—A. Yes, sir.

Q. Could it be put on the record the securities behind the loan?—A. Oh yes. It says here "secured under section 88 of the Bank Act and pledge of certain other assets".

Q. Was the loan ever called?—A. I do not think so.

Q. Well then, at least you received preferred treatment?—A. Oh, not at all. We did not receive any preferred treatment. Don't ask me to talk about that.

By Mr. Geary:

Q. Mr. Gundy, when Canada Power took over these five companies did they take them over on the basis simply of transfer of stock and securities?—A. Yes, sir.

Q. They did not take over the physical assets?—A. No.

Q. Each company continued to run by itself?—A. Yes, sir.

Q. And Canada Power was incorporated first with common shares, 750,000 of no par value?—A. Yes, sir.

Q. And later on that was increased to 2,000,000 shares of no par value?—A. Yes, sir.

Q. And Anglo-Canadian got 303,750?—A. Yes.

Q. And Wayagamack 200,000?—A. Yes.

Q. And Port Alfred 330,000?—A. Yes.

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Q. And Laurentide 288,000, and St. Maurice 400,000?—A. Yes.
Q. Making a total of 1,521,750 shares?—A. Yes, sir.
Q. Then the remaining shares were left in the treasury?—A. Yes.
Q. They were never sold to the public?—A. No, sir.
Q. Laurentide shareholders got one share of Canada Power and one debenture?—A. Yes.
Q. And what did St. Maurice get?—A. They got $2\frac{1}{2}$ shares of common and no debenture.
Q. And Port Alfred?—A. They got $2\frac{1}{4}$ of Canada Power and no debenture.
Q. And Wayagamack?—A. Wayagamack got $50 of debenture and $1\frac{1}{2}$ shares of common.
Q. And Anglo-Canadian?

The CHAIRMAN: Anglo-Canadian came in at $2\frac{1}{4}$.

By Mr. Geary:

Q. No debenture?—A. No, sir.
Q. Then when you took this over and fixed that rate of exchange, did you take it over on the statement showing, for instance, book value of assets?—A. We just took the shares. We did not interfere with the inside of the company at the time.
Q. I know, but when you were getting at the compensation you were to pay for a share, in one case it ran up to $2\frac{3}{4}$, how did you fix that?—A. That was a matter of long negotiation and compromise.
Q. Was it based at all on an appraisal or an inventory valuation of the assets of every company?—A. It was based on expert advice, yes.
Q. What I mean is, you did not take a statement of their book value?—A. No. We took everything into account that we could find out, every factor that we could find, for instance the nature of the timber reserves, the position of their merchandising, their contracts for the sale of paper, everything. For instance, in connection with the Anglo deal, one of the determining factors was the fact that Lord Rothermere was a big consumer.
Q. Did you take into account as a primary condition the return to the shareholders, the earning power?—A. We always considered that, yes.
Q. But that was not the only basis?—A. Oh no.
Q. But you did consider that?—A. Yes.
Q. I am quite safe in saying the thing was not consummated on an inventory valuation?—A. Oh no.
Q. You did not do that?—A No. We considered the physical assets, the inventories, and all the factors that we could ascertain.
Q. Then Laurentide got one share and a $100 debenture. Then do you know what happened when Canada Power turned into Consolidated, or were you out of touch then?—A. Yes. I was not on their committee.
Q. Could you tell me in connection with the five companies that you have just told me of now, the differentiation there was in the issue of Consolidated for Canada Power? For instance, Laurentide had a very much lower distribution in Consolidated than some of the other companies.—A. Well, I have no figures before me.

The CHAIRMAN: Do you want to go into the reorganization of Canada Power.

Mr. GEARY: No no. I just want to find out one thing that goes back to the beginning of these companies. Mr. Gundy has said that they exercise very close scrutiny of the affairs of the company in order to arrive at its value, and upon that value they fixed the compensation that was to be paid, and when Consolidated took over Canada Power they apparently found that the valuation, for instance, of Laurentide had been much too high.

[Mr. J. H. Gundy]

The WITNESS: Well, I am not saying that to you because I do not know it to be a fact. It was the first time I ever heard it.

Q. Well I think I am safe in saying that is true.—A. I have no konwledge of that.

Q. Then if I am right, there is a conflict in regard to valuation between you who took over Laurentide and the Canada Power and Consolidated who took over Laurentide through Canada Power as to the value of the shares of Laurentide, a very marked difference in value.—A. Well, of course, I am sorry I cannot help with that because I do not know the facts.

Q. Well, would that indicate that if they had done that, that Consolidated's idea of the valuation of Laurentide was widely different or different from your idea of the value of Laurentide?—A. Well, Mr. Geary, you speak of my idea of value of Laurentide. It was not my idea. It was the idea of the shareholders of these two companies, and they made up their mind as to whether it was a deal they liked or a deal they did not like, and they decided they liked it and they did it.

Q. This is a matter of practical common sense.—A. No, for this reason, Mr. Geary, that in the case of Laurentide that company had been in existence a very long time; its shares were very widely scattered; there was no substantial holding of these shares anywhere that I know of; therefore, there wasn't any member who was in a position to coerce, or use any undue influence on these shares. They made the deal on its merits and followed their own judgment. They had the recommendation of their directors, and as you know these were very distinguished.

By Mr. Irvine:

Q. How many were present at the meeting of shareholders when they decided on this matter?—A. I do not know. I am not sure that I was there myself. (See explanatory note at p. 891.)

By Mr. Geary:

Q. You would have amongst your files the circular letter addressed by the officers of the company to the shareholders?—A. Yes, Mr. Hodgson has that here, Mr. Geary.

Q. I would rather like to have the letters for all the companies that were brought in.

The CHAIRMAN: I understand they are available; they will be put into the record.

By Mr. Geary:

Q. However, you can tell me nothing about Consolidated's valuation of Laurentide?—A. I am just thinking of that while you are speaking. I believe that that was very thoroughly discussed by that committee, very thoroughly studied. given a lot of thought. I do not think it was done in any cursory way.

Q. You mean Consolidated's committee?—A. Yes, I think it was gone into very carefully.

Q. My recollection is that the Consolidated found that the valuation given to Laurentide and Wayagamack was very much too high when they were transferred to Canada Power.—A. I always thought they got too good a deal myself.

Q. Very well then, you cannot tell me any more about Consolidated's valuation?—A. No.

Q. Then, Mr. Gundy, at the time of the statement that was filed, I think it was the fiscal year of 1931, the indebtedness of Canada Power to the banks was $14,500,000?—A. Yes, sir.

Q. What was that indebtedness, how was it incurred?—A. It was incurred gradually by the building up of woodpiles and through losses in operation.

Q. I do not want to go into that particularly, but they were really indebted to the extent of $14,500,000?—A. Yes.

Q. None of that was incurred in connection with the control of Canada Power and the absorption of Canada Power?—A. None whatever.

By the Chairman:

Q. Was any of it incurred by losses of the Canadian company?—A. Oh yes.

Q. Some of it would be losses?—A. Surely.

By Mr. Geary:

Q. Then you gave us a chart which, as you said, was very interesting of the Canadian capacity and the American demand, which continued on parallel lines up to the end of 1929, or the middle of 1929.—A. The chart shows that 1929 was the biggest production Canada ever had.

Q. And the chart shows that Canadian capacity increased on the same curve from 1929 to 1931?—A. Yes.

Q. Were you interested at that time?—A. No, sir.

Q. You do not know why or how that was financed?—A. Oh yes, I know.

Q. How was it financed, by bank loans?—A. No, no.

Q. I was just wondering, because as I say the Canadian capacity increased on the same curve from 1929 to 1931 while at the same time the American demand took a sharp downward drop?—A. That is right. The companies that I was interested in put in their last machine in 1926, and we are the only group that did not put in machines after that, so far as I know.

Q. However, you do not know how they financed it?—A. Oh yes, I know how they financed it.

Q. It was not your group to begin with, was it?—A. Oh, no.

Q. Who was doing the increasing?—A. I will give you the figures.

Q. And how the money was found?—A. Yes. Well now, an interesting thing—I was looking this up yesterday—over 71 per cent of the new production between the 1st of January, 1927, and 1931, 70 per cent of that was under the sponsorship of the American or English groups, not Canadian at all.

By the Chairman:

Q. Would you give the details?

By Mr. Geary:

Q. Was that Graustein?—A. He was only one of them. The International group was responsible for 21 per cent; the Abitibi group for 15 per cent; the Backus group for 14 per cent; the Spruce Falls group for 10 per cent; and the Anglo-Canadian 10 per cent; that is 71½ per cent. Then the other people who put in machines were St. Lawrence Paper Mills, 10½ per cent; Price Bros. 5 per cent; Mersey 5 per cent, and Bathurst 1½ per cent.

Q. Could you break down as between the two 2-years period?—A. It could be done, yes.

Q. What I am curious about is the proceeding to increase the capacity when the crash came.—A. In fairness to these people I think it should be said that the creating of paper mills is a matter that has to be looked at away ahead; you have to acquire your limits; you have to make your waterpower arrangements; you have to figure out where you are going to sell the paper; there is a whole lot of preliminary work, so that the fact that these machines went in in 1931 or 1930, or when they did go in, was the result of plans that had been made years ahead. Some of these fellows were not able to stop, although I think some of them I could have stopped quickly myself. Although

[Mr. J. H. Gundy]

I think in justice it should be said that these plans mature slowly and take time to develop, and they did not stop because they did not know just what was going to happen.

Q. The financing you have not told me about.—A. The International financing, the Abitibi financing, the M & O financing was all under the sponsorship of American financial groups, although Canadian houses in Quebec sold some bonds in a retail way. Spruce Falls was also American. That is the company that is half owned by the New York Times. Anglo-Canadian was financed in England.

Q. By the issue of securities?—A. Yes.

By Mr. Power:

Q. Where was International Paper financed?—A. It was financed as you know, under the sponsorship of a big New York Bank, and there were securities sold to bond houses, wherever they could sell them, whenever they could sell them.

The CHAIRMAN: Any other questions?

Mr. COOTE: Mr. Chairman, I hesitate to take part in the investigation of a subject so involved as this, and I would like again to suggest, with your permission, the employment of counsel for this committee.

The CHAIRMAN: Well, we will proceed; we are doing very well I think.

By Mr. Coote:

Q. We are proceeding in a very hit or miss way, Mr. Gundy, and I hope, so far as I am concerned, you will pardon me if my questions seem to jump from one point to another. The one thing that struck me this morning was the question of the capitalization of the paper industry, and perhaps I might start by calling your attention to the statement in a press report that is attributed to Mr. Taschereau, the Premier of Quebec, and I only read this because it gives me a chance to get immediately to this question of capitalization:

> Recently, in one of his public speeches, Mr. Taschereau made the startling, indeed the astounding statement, that the power, paper and pulp companies of eastern Canada with an original capital of $30,000,000 had, within a few years, enlarged and financed themselves into a capital of $714,000,000. The mere statement takes one's breath away.
>
> Mr. Taschereau added that in his judgment the value of that $714,000,000 was to-day not more than $25,000,000.

I wondered if you, Mr. Gundy, because of your connection, or the part that you have shared, or taken, in selling investment securities to the public, could give us some idea of the capital that was invested in this industry, say fifteen years ago, and what it is to-day, and what the properties are really worth? How does the capital structure of the companies engaged in this industry compare with the actual value of their assets?—A. That is something I have been thinking about a lot. If you asked the average man who is familiar with the paper industry to-day he would say: Look at the tremendous capital, isn't it terrible; the reason for that is they are not getting any return on it. But supposing you had the problem of replacing the miles of timber limits that comprise the Canadian newsprint industry, you not only could not replace them for the value that is represented by the market price of their securities to-day, but you could not replace it for ten times that. I doubt if you could replace it at all. I do not know whether you could get together a group of timber areas, water powers, and efficient mill equipment that would duplicate the Canadian newsprint industry on the face of the earth.

[Mr. J. H. Gundy]

Q. Have you any figures showing the total amount of capital that is involved now?—A. Oh, it is very easy to get. That yellow book that you had there has it.

Q. I thought perhaps you could give it to us.

The CHAIRMAN: By capital you mean the funded debt and everything.

Mr. COOTE: I mean all the liabilities of these companies, capital liabilities.

The WITNESS: It would not be very difficult to get that.

By Mr. Coote:

Q. Well, is it anything in the neighbourhood of $700,000,000?—A. I would say so.

Q. You would think it is more than that?—A. I would guess so.

Q. You have really no figures?—A. I have no figures here but it is easy to get them.

Q. Mr. Power questioned you at some length with regard to the Laurentide Company. I think you told us that the Laurentide capital was $200,000; that was in 1911 I think.

Mr. POWER: No, 1889.

Mr. COOTE: Well I wondered whether it would be possible, Mr. Chairman—and I think this will get us information on the point we are discussing now as to how that capital was built up.

The CHAIRMAN: Mr. Chahoon is here, you can ask him.

Mr. COOTE: Would he give us that information?

The CHAIRMAN: I think so, yes.

Mr. COOTE: Well, we will leave that then till we come to Mr. Chahoon.

By Mr. Coote:

Q. Mr. Gundy, the official name of your company through which you carry on most of your operations, I think, is Wood, Gundy & Co., is that correct?—A. Wood, Gundy & Co.

Q. Is that an incorporated company?—A. Yes, sir.

Q. Is any member of that company a bank director?—A. No, sir.

Q. Mr. Wood, who is I suppose a member of your company, is not a bank director?—A. No, sir.

The CHAIRMAN: You must not confuse him with Mr. E. R. Wood.

By Mr. Coote:

Q. Your business I suppose is really investment banking?—A. Are we still allowed to use that name?

Q. I will put it this way then: Do you use that term?—A. No, we do not use it.

Q. What do you describe yourselves as?—A. We describe ourselves as bond dealers.

Q. Bond dealers?—A. Yes.

Q. You have sold a great many bonds to the public?—A. Yes.

Q. A large part of them, I suppose, would be power and paper?—A. No, no, a very small percentage.

Q. When you sell these bonds to the public I suppose that you naturally place some value upon them yourselves before you offer them to the public?—A. Oh, yes, certainly.

Q. You consider that as part of your duty?—A. We put a value on them because we have to buy them. If we pay for them we have to know what they are worth.

[Mr. J. H. Gundy]

Q. And the public when they buy them from you consider that you have given the matter very careful thought?—A. Some people tell us that we do not know what we are talking about and don't buy the stock, but other people think that their judgment coincides with ours and they buy them.

Q. You would not be able to sell them to the public unless the public thought that you were able to exercise very good judgment?—A. Oh, sure. The great majority of the people that buy bonds from us buy on their judgment not on ours.

Q. Then I was going to ask you if you would give us a better definition for this term "public" who buy the bonds, Mr. Gundy.—A. Oh, thousands of people all over the world.

Q. Who buys the bulk of them, thousands of individuals or corporations? —A. Well, sometimes the most of our business is with corporations, and sometimes the most of our business is with individuals, depending on conditions.

By the Chairman:

Q. The big buyers are insurance companies?—A. Yes, and banks.

By Mr. Coote:

Q. I see the name Holt, Gundy, Chahoon & Whitehead. Is that the same firm we have heard about this morning as Holt, Gundy & Co.?—A. I never heard of that firm.

Q. I came across it in some correspondence some days ago.—A. No such firm.

Q. It probably refers though to Holt, Gundy & Co. Perhaps, however, you would not know about that. I want to get something about the story of Anticosti, Mr. Chairman. I do not know whether I should ask Mr. Gundy anything about that, or Mr. Whitehead.

The CHAIRMAN: You can get it from the others.

Mr. COOTE: There are some of these questions to which I would much prefer Mr. Gundy would give us the answers, because he is looked upon as a sort of national figure and people think that Mr. Gundy knows the actual conditions in regard to the companies with whose securities his name is connected. However, I will leave those questions until Mr. Whitehead comes on. I was wondering if Mr. Gundy had the actual figures of newsprint production, how it has been increasing.

The CHAIRMAN: Well, that chart shows it.

Mr. COOTE: And the exports, what has been the actual dropping off. I would like to have the figures on the record as to tonnage.

The WITNESS: I will give it to you right here. In the year 1929 Canada exported 2,263,000 tons. That is the largest in any year, and they got for that $142,000,000. In 1933, they exported 1,662,000 tons for which they received $74,000,000, or a difference of $68,000,000. The exports to the United States are just $68,000,000 less in 1933 than in 1929.

By Mr. Coote:

Q. I have some figures here which show that the world consumption of newsprint increased by 3 per cent in 1927; the consumption of newsprint increased 3 per cent over the previous year; in 1928 consumption increased 6 per cent, that is, over the previous year; in 1929 it increased 8·5 per cent over the previous year; in 1930 it decreased 4 per cent over the previous year; and in 1931 the decrease was 5·7 per cent over the previous year. I suppose

that these figures would agree with your information at least.—A. They might. I have the exact figures.

Q. Then I want to go back for a moment to this capitalization of the pulp and paper industry.

By Mr. Morand:

Q. Could you give us an idea why there was such a tremendous decrease? —A. The shrinkage in advertising, circulation, the size of papers, the size and the type of newspaper—a smaller paper—because times are bad.

By Mr. Stanley:

Q. And difference in price?—A. Yes, difference in price, which is very important.

By Mr. Coote:

Q. I am told that newsprint securities during the 1923 to 1925 period, Mr. Gundy, were based on an approximate price of $70 to $75 per ton, and with an efficient plant complete with wood supply and sufficient working capital, operating at efficient capacity was worth about $40,000 per ton daily capacity; have you any idea whether that is correct or have you given that any consideration? —A. Whether that is a correct value?

Q. Yes, at that time it worked out at $40,000 per ton at full capacity.—A. That was considered a standard value at the time, but is regarded too high to-day.

Q. Then it is said later on new securities were issued and subscribed to on the basis of double that value.—A. I do not recall that, I do not think so.

Q. I was wondering whether we could find out whether that is true or not, and whether we could get some reason as to why the public would subscribe at those values.—A. The reason the public subscribed was because they saw that these companies were making lots of money and they wanted to get part of it.

Q. And was the capital of the companies then run up in such a way as to take advantage of increased value?—A. No.

Q. Do you think if we could get a thorough analysis of the capital structure of these companies we would not find there had been considerable of what is sometimes termed watered stock?—A. They were not watered.

By the Chairman:

Q. Just in that connection, Mr. Gundy, was there not a scramble on the part of certain people to get a hold of certain properties which gradually depreciated in value; I am referring to the Bathurst Company?—A. That is a classic example. They no sooner had it than they wanted to get rid of it.

By Mr. Coote:

Q. I would like to find out if I can from Mr. Gundy about a mill at Port Alfred. You said there was a mill built, I think, in 1926, and certain securities were sold. Have you figures showing the actual cost of the production of that mill?—A. The company would have those figures.

Q. You have not got them yourself?—A. No.

Q. Well, were you interested in selling those securities?—A. Yes.

Q. Were you a director at that time?—A. Yes.

Q. Did you take any steps to see that all of the capital, that is, the new capital subscribed was actually used in the construction of the mill?—A. I am perfectly satisfied that it was; I am perfectly sure that it was.

Q. Could you tell us what percentage of the capital actually subscribed went into the treasury of the company?—A. Every dollar.

The CHAIRMAN: Less the spread.

By Mr. Coote:

Q. Did not the investment bankers get anything?—A. The investment bankers bought the shares and took the responsibility of selling them.

Q. I am just trying to get at what it costs these companies to market these securities.

The CHAIRMAN: What does it cost a company to make a floatation of securities? It depends on two or three factors, if they are first mortgage bonds, or second mortgage bonds, or preferred shares.

By Mr. Coote:

Q. I would like to get the percentage of money that the public actually paid that went into the treasury.—A. On newsprint securities I would say a rough figure would be around 5 points of spread.

Q. Not more than 5 points?—A. Well, there might be cases where it might be more. For instance, I told about selling the common shares at 25, nobody made anything on that.

By the Chairman:

Q. Mr. Gundy, in the case of first mortgage bonds the spread would be about 5 per cent?—A. Yes.

Q. And in the case of preferred shares it would be larger?—A. It might be larger.

Q. 7 or 8?—A. Possibly, and sometimes less. For instance, I remember some preferred shares when we only had two points. The competition was keen. It is governed by the competition.

The CHAIRMAN: You want to know, Mr. Coote, how much money is scattered between the public and the company.

Mr. COOTE: I think I made my question as clear as it can be. What percentage of the money the public subscribed for those various securities actually went into the treasury of the company and was available for the erection of the mill?—A. I would say a rough figure would be about 95 per cent.

Q. 95 per cent?—A. Yes.

Q. That is based on your experience as an investment banker and a purchaser of those securities?—A. Yes, sir.

By Mr. Geary:

Q. That difference of 5 per cent being represented by costs of sale, Mr. Gundy?—A. Yes.

By Mr. Coote:

Q. Mr. Gundy, I think you said that there were no profits so far as you were concerned; perhaps nobody else is concerned in the formation of the Canada Power & Paper Co. Could you tell us something of the profits, if any, there were in some of the previous amalgamations, Port Alfred or Laurentide? —A. Oh, Port Alfred was simply a matter of financing as they built their mill, selling securities as they needed it, the same as those for Laurentide.

Q. Were not there several companies merged in Laurentide?—A. No.

The CHAIRMAN: We will adjourn till 4 o'clock.

The committee adjourned at 1 p.m. to resume at 4 p.m.

The committee reconvened at four o'clock.

Mr. J. H. GUNDY resumed the stand.

The CHAIRMAN: Now gentlemen, can we finish with Mr. Gundy? We have some more witnesses to come.

By Mr. Coote:

Q. Mr. Chairman, I have a very few questions that I should like to ask Mr. Gundy. I should like to ask him whether he knows what was paid for Anticosti?—A. $6,000,000.

Q. Was that paid to Senator Meunier?—A. Yes.

Q. Was there a valuation made of Anticosti Island before— —A. Several of them.

Q. I suppose the directors were aware of that?—A. Yes.

Q. By whom was the island purchased?—A. By the Port Alfred company, the St. Maurice company, and the Wayagamack company, one-third each.

Q. Was there a corporation set up?—A. Yes.

Q. Known as the Anticosti Corporation?—A. Yes.

Q. Was the purchase made by that corporation?—A. I suppose that was technically the way it was done, yes.

Q. Each of those companies— —A. Had one-third of the responsibility.

Q. At what valuation was the island taken in by those companies?—A. Taken in at the cost, I suppose.

Q. Do you know whether it was or not?—A. Mr. Hodgson, I think that is right, is it not?

Mr. HODGSON: Yes.

The WITNESS: I take it for granted, because that is the way things are always done.

Mr. HOWARD: I might be able to clear the record a little on this.

By Mr. Howard:

Q. As a matter of fact, the companies did not pay any money. You sold the bonds to the public, and each one of the companies you mentioned guaranteed one-third of the interest on the bonds?—A. Indirectly.

Q. Through contracts for the purchase of pulpwood?—A. If they did not take the pulpwood they had to pay anyway, so it amounted to what you say.

The CHAIRMAN: Only interest, not the principal.

The WITNESS: Not the principal.

By Mr. Coote:

Q. Did you say "not the principal"?—A. There was no guarantee, just a pulwood contract and therefore—

Q. Was there no preferred stock issued in connection with those bonds? —A. $3,000,000.

The CHAIRMAN: Was that sold?

The WITNESS: Yes, $3,000,000 worth.

By Mr. Coote:

Q. How was that stock sold; was it sold to the public at par?—A. I would say at a slight discount. Can you give me that, Arthur? We have the information there.

Q. While we are getting that information, I should like to ask you this: Did your company issue a circular in which they value the island of Anticosti at $15,000,000?—A. I will just look at the circular and see.

Mr. ARTHUR COBBAN: The bonds were offered at par and the preferred shares at 97½.

The WITNESS: What did that circular value the island at, Arthur.

Mr. COBBAN: The circular gave no valuation.

The CHAIRMAN: Did it not give the cordage?

Mr. COBBAN: Yes.

The CHAIRMAN: What was that?

Mr. POWER: 15,000,000 cords.

The CHAIRMAN: Freehold.

The WITNESS: Freehold.

By Mr. Coote:

Q. I will admit I do not understand this transaction as well as I should like to. I understand $6,000,000 was paid for the island, and yet the corporation issued 6,000,000 in bonds and 3,000,000 of preferred stock.

Q. Does that mean that the island was valued then at $9,000,000?—A. Not at all; you see, the proceeds of the preferred stock were used to provide the company with money to carry on operations and develop the woods operation on the island.

The CHAIRMAN: Working capital.

The WITNESS: Working capital.

By Mr. Coote:

Q. In other words, all the working capital, as well as what was paid to Senator Meunier was secured from the public?—A. Yes, I think that is correct.

Q. Then——A. We may, at certain times, have borrowed a little money from the banks, but of course that was all furnished on the credit of those three strong paper companies.

Q. Did the paper companies guarantee the bonds and the preferred stock?—A. It amounted to that because they agreed to furnish the money to pay the interest and dividends through the purchase of pulpwood, and the contract provided if they did not take the pulpwood in any one year, they would take it some other year, but they had to pay the money regular, anyway, so it amounted to a guarantee.

Q. Did those shares of preferred stock carry any voting power control of the company?—A. I would suppose not—I cannot tell you—except in the case of default.

Q. Then I suppose, what you have said will explain the agreement, and I should like you to correct me if I am wrong, under which these three companies, the St. Maurice Valley Corporation, the Wayagamack and the Port Alfred company were to purchase from the Anticosti corporation a minimum of 390,000 cords of pulpwood during each of the three years commencing November 30, 1926, and 420,000 cords during each year commencing November 30, 1929. How long would the last years be?—A. I think for a long period, long period.

Q. Were they operating?—A. My recollection would be the minimum was probably a twenty year contract. Is that correct, Wilfred (Hodgson).

Mr. HODGSON: Fifteen years.

The WITNESS: A long contract.

By Mr. Coote:

Q. It meant they were bound to purchase this wood whether they could use it or not?—A. Yes; it was all in the family. They owned the island, through a subsidiary company. Now, it was not a strictly subsidiary company, because

it was divided among three independent companies; otherwise it would have been an ordinary subsidiary company. The only difference between that and an ordinary subsidiary company is that there was an equity—it was owned by three people instead of one.

By the Chairman:

Q. Were the contracts for pulpwood contracts sufficient to pay interest on the bonds acquired and the preferred stock and provide for the retirement of the bonds?—A. I believe so; yes, that is correct.

By Mr. Coote:

Q. Perhaps we might get that from some of the other technical men?—A. Yes. We can get it; it is here.

Q. Now, I understand you to say these three corporations jointly owned Anticosti Limited?—A. Yes.

Q. Was the money paid to Senator Meunier by the Anticosti Corporation?—A. I believe so.

Q. Was any commission paid to anyone?—A. Not so far as I know. Wayagamack got a commission, didn't they, for bringing in the deal $500,000. Wayagamack got $500,000 for bringing the deal to the three of them.

Mr. C. R. WHITEHEAD: There is just one thing I should like to say there. We actually paid $7,000,000 for Anticosti. We actually paid $7,000,000 for the island, and Wayagamack received half a million, which went to the coffers of the company. Beyond that there was not a cent paid for anything.

The WITNESS: That is right, I forgot about Mr. George Martin-Zede.

Mr. COOTE: It would be too bad to forget about $1,000,000, Mr. Chairman.

By Mr. Coote:

Q. May we have some information on what this gentleman has just said?—A. Yes there was a man who looked after the island for Senator Meunier in Canada, a man with whom Mr. Whitehead dealt.

The CHAIRMAN: The caretaker.

The WITNESS: It was a long-standing arrangement between Meunier and Martin-Zede that when the island was sold, Martin-Zede was to be taken care of. When Mr. Whitehead went to Meunier, he sent him to Martin-Zede and said, "Carry on your negotiations with Martin-Zede." I remember Meunier going over the deal finally. He got his money. The transaction was really done with Martin-Zede, who was Meunier's factotum. He was looking after the island, looking after all Meunier's affairs.

By Mr. Coote:

Q. You were a director of one of those companies at the time?—A. Two of them.

Q. You assured yourself, as a director, that this island was worth that amount?—A. Yes.

Q. You were satisfied as to that?—A. Yes.

The CHAIRMAN: In the good old days the salmon fishing alone would be worth pretty nearly that much.

The WITNESS: Good fishing, too.

Mr. COOTE: It sounds like pretty expensive salmon fishing to me. I do not know how many salmon are there.

The CHAIRMAN: They are high priced.

[Mr. J. H. Gundy]

By Mr. Coote:

Q. In addition to the agreement which we have been talking about regarding the contracts to purchase 390,0000 cords of pulpwood each year, and later on increased to 420,000, is there some further agreement whereby they were to pay the Anticosti Corporation in each year a sum equal to the full amount of the Corporation's operating expenses including depreciation?—A. I think so, I think that was part of the same agreement.

Q. As long as any of the bonds of Anticosti Corporation were outstanding, a minimum stumpage fee of \$2.40 for each cord of pulpwood purchased. I suppose that really refers to the amalgamation purchase?—A. Yes.

Q. 420,000 cords a year?—A. Yes.

The CHAIRMAN: \$2.40?

By Mr. Coote:

Q. Perhaps Mr. Gundy or some of the other officers can clear that up. I will state the question again. It is hearsay information so far as I am concerned, and I should like to find out whether it is correct or not.

The CHAIRMAN: Have you the prospectus?

By Mr. Coote:

Q. As long as any of the bonds of Anticosti Corporation were outstanding, a minimum stumpage fee of \$2.40 for each cord of pulpwood purchased, whether or not the minimum number of cords agreed to be taken out was cut or delivered. You think that would be correct?—A. That is correct.

Q. Did you see the valuation in regard to the Anticosti Island?—A. Yes; not only that but with some of the other directors, I personally went to Anticosti with these experts and discussed with them on the ground, had them show us the river. We went over the island, and we went into the woods with them and had these experts, who had been spending months going all over the island, explain to us where the wood was, and what the conditions were under which that wood would be gotten out. It was very thoroughly studied.

Q. Salmon fishing, I suppose was not overlooked?—A. We did not do any salmon fishing; we were too busy. I should like to go there salmon fishing, some time, There are lots of them there.

Q. Can you tell us, Mr. Gundy, how much pulpwood each of the companies was able to purchase in each year since that time?—A. We had to purchase that. As I said this morning, their yards have been filled with pulpwood for the last three years. They did not need any pulpwood, anyway, for two or three years. Naturally, when the price of paper is as low as it is, and the conditions so difficult, so hard to borrow money, the pressure is on those companies to take the wood right next to their mill. It is not good policy, as a general rule, but they are using the nearby wood these days because they simply cannot afford to bring the wood from a distance, and the result is some of these days the paper is going to cost them more.

Q. I have been told this wood is so far away from the plants of some of these companies, that they have put a different value on it. What do you say to that?—A. Foolish. It is a very very valuable piece of freehold. At the time, one of the most valuable in the world.

Q. Is there any water power in the island?—A. No, nothing that salmon cannot leap.

Q. Would these valuators' reports be in existence?—A. Yes.

Q. And available?—A. Yes; you can see them, Mr. Coote.

Q. Referring to what you said this morning about the difficult period the pulp and paper companies are faced with—perhaps before I come to that,

there is one question I should ask you here. Of the three companies concerned, they gave their guarantee on bonds and preferred shares that were issued by the Anticosti Corporation?—A. Up to the time of the reorganization.

Q. After the reorganization took place, can you tell us what happened to the bondholder and the preferred stockholder in the case of Anticosti?—A. The bond holder received bonds of Consolidated Paper and the preferred stockholder received common stock of the Consolidated Paper, and the common stockholder of the Canada Paper was out of luck; he got very little.

Q. What would that stock be worth now?—A. $3 a share, I think.

Q. It was sold at $97?—A. Yes.

The CHAIRMAN: I suppose the contracts were wiped out?

Mr. COOTE: Would the contracts be wiped out?

The CHAIRMAN: It would depend on the plan of reorganization.

By Mr. Coote:

Q. That was effected through voluntary reorganization?—A. Yes.

Q. And the bondholders, did they form a protective association?—A. There was a bondholder committee formed, yes.

Q. Coming back to the question or a statement you made to the committee this morning, regarding the difficulties of the companies now because of overproduction and the companies going ahead and building new plants, while you were perhaps refusing, at least, to build any new ones, do you think it is time we had some national supervision of this very important industry?—A. Of course, as you know, Mr. Coote, most of the timber areas in the provinces of Quebec and Ontario and other provinces, are owned by the provincial governments, by the provinces, and they have very very definite control over the industry.

Q. Of course, we are thinking also of the funds of the investing public which you mentioned this morning. The investing public, you told us, included a large number of individuals.

The CHAIRMAN: He is speaking of the raw materials, without which the industry could not function at all.

Mr. COOTE: We were also told it could not function without capital.

By Mr. Coote:

Q. I was going to ask Mr. Gundy whether from the standpoint of safeguarding of funds of widows and orphans, we perhaps should not exercise some supervision over the investment of money in this industry?—A. Which widows and orphans; is it the widows and orphans who have their money in paper industries or in western Canada or where?

Q. The pulp and paper industry.—A. I do not think the widows and orphans suffered any more in the paper industry than in any other industry affected by the depression.

Q. I do not suppose they have, either. I suppose they have suffered very much in all others.—A. It is a matter of opinion, entirely. I am afraid I am not an expert.

Q. Just one or two other questions, and I am through. In regard to a pulp and paper plant, how long is it before a plant becomes out of date or obsolete?—A. Well, that is a very interesting question, Mr. Coote. The Laurentide, as you heard Mr. Power say to-day, was begun in 1889. Now, that is nearly 50 years ago, 45 years ago. At this date the plant of the Laurentide Company is one of the most efficient in the world; it is a very fine plant to-day.

The CHAIRMAN: Of course, they had removed the old machinery?

The WITNESS: Laurentide was kept up, maintained up to date. They have been progressive in the way of handling it, and they have a variety of sizes of machines, which makes it a flexible plant, as compared with those great big machines which make only one size, or cannot be changed over without a loss. Those paper mills are permanent properties.

By Mr. Coote:

Q. The statement is frequently made that a lot of the mills that were taken over, some of the mills of the Canada Power and Paper, were really obsolete at the time the amalgamation was effected, that they had not a fair chance to compete with some of the latest mills?—A. I do not think anyone who is familiar with the industry would make that statement.

Q. You are familiar with financing of the industry in a general way for quite a number of years. Would you say to the committee that the proper amount of the earnings of those companies has been taken either to keep the mills up to date, or provide for sufficient depreciation?—A. Certainly up to the time they had any earnings to do it with. The last two or three years, I cannot say. I am not familiar with the figures in the last two or three years; but I expect in times like these they might pinch the depreciation a bit. I am told that these mills have been very carefully maintained and are in splendid operating condition.

The CHAIRMAN: As I understand it, Mr. Coote, the income tax division of the National Revenue department do not allow them to write off any more than they think proper; but they are liberal with their write-off.

By Mr. Coote:

Q. I have been told that the price at which your re-capitalization of these companies was made would indicate that the capitalization really represented the total earning power of those industries. It seems to me, if that were so, they were not being financed correctly.

The CHAIRMAN: Are you referring to Canada Power and Paper?

Mr. COOTE: Take Laurentide. I should like to know what the final capital structure was when it went into Canada Power and Paper. It started out with $200,000.

The CHAIRMAN: It is right here.

Mr. IRVINE: Could that be put in the record?

Mr. COOTE: It may be printed in the record, but we have not it available at the moment.

The WITNESS: 288,000 shares of common stock, and there were bonds on the Laurentide Company which were mentioned this morning—it was a very simple capital structure.

Mr. COOTE: It sounded to me as though it were quite a big capital structure.

The CHAIRMAN: Total assets of $34,777,000.

By Mr. Coote:

Q. The question I should like to get for the benefit of the committee and the benefit of the people is this: Were the amounts of securities issued by these companies based upon their actual earning power. Was sufficient of their earnings taken and set aside either to keep the plant completely modern or provide for depreciation and retirement of the bonds issued against it?—A. Yes.

The CHAIRMAN: Mr. Coote, they didn't have any bonds at all.

Mr. COOTE: Regardless of this particular company, because I cannot single out one from the other.

[Mr. J. H. Gundy]

By Mr. Coote:

Q. I go back to the statement which I read, attributed to Mr. Taschereau, that the capital had grown to some $730,000,000 odd, and it is very difficult, very hard, for the public to see how that capitalization can be justified by the amount of plant that exists to-day, and a lot of other plants going back. At least, some of those plants started in 1889, the bonded debt or capital invested at that time should have been retired out of earnings before that. I was just trying to get some statement from Mr. Gundy on that.—A. I will make this statement, which might be of some help to you. One of the companies, that is the newest one of the mills—it is the newest, Mr. Power, I think,—one of the most efficient I think in Canada, one of the best equipped, is the Anglo mill at Limoilu in Quebec. Now, that is owned by Lord Rothermere, who is a pretty able financier, and a pretty sound fellow, pretty shrewd. That company was built for himself. He was not selling any securities to the public; it was his own show. He sold bonds to the public, and every dollar of the bonds went into the plant. He sold preferred shares to the public, and every dollar went into the plant. He kept the common shares for himself and a few of his friends. Now, that is the highest capitalized mill in Canada.

Mr. Power: $22,000,000?

The Witness: Yes.

By Mr. Coote:

Q. How many plants has he?—A. One mill.

Q. Would you suggest——A. Four machines.

Q. Would you suggest to the committee that it takes anything like $22,000,000 to build one plant?—A. I am sure of it. I would not advise you to try to build with any less, because you would be short.

Q. How many machines?—A. Four.

Q. Do we need to provide sufficient paper in Canada to-day, newsprint—

The Chairman: You do not build for the Canadian market?

Mr. Coote: I mean the available market, Mr. Chairman.

The Chairman: The export market is the market.

Mr. Coote: That is what I mean. I mean the whole possible market.

The Witness: If you do not go on with this destructive building of new mills, give the thing a little rest, I think you will all be surprised how soon all these mills will be running full again. What do you think, Mr. Power?

Mr. Power: I do not. I have had my licking, and I am staying out.

By Mr. Coote:

Q. Had you hopes that you could take care of all the bondholders and preferred stockholders?—A. So far as the common stockholders are concerned, we feel that what we have got left is so little is not worth bothering about, but I think the other fellows, the bondholders and preferred stockholders, they have a real chance; the bonds first, and the preferred later.

Q. Does not the common stock of this corporation represent—that is, the common stock now, represent and in many cases, bonds and preferred stocks before?—A. Yes, it does; mostly preferred.

The Chairman: The bonds were changed?

The Witness: No, they got a bonus.

The Chairman: Are there any other questions to ask Mr. Gundy?

By the Chairman:

Q. Just to sum up for a moment, there was no new public money put in the Canada Power and Paper Company at the time of the amalgamation? Is that what I understood you to say?—A. Yes.

[Mr. J. H. Gundy]

Q. And there was no issuing of the stock or securities of Canada Power at the time of the amalgamation?—A. That is correct. We put no new machines in.

Q. You did not expand the business?—A. No.

Mr. Power: There may have been an overvaluation of the physical assets.

The Witness: No increase in value of physical assets.

By the Chairman:

Q. There may have been. Somebody asked that a list of the shareholders of the constituent companies be put in. It is not now available, and will be put in the record if not too voluminous. Could I have the letter in connection with the St. Maurice Valley?—A. They are all available.

By Hon. Mr. Morand:

Q. Was there ever an appraisal made of any of these concerns before the amalgamation, or the exchange of stock was made?—A. Oh, yes.

Q. Were they made up on a basis of appraisal or upon a basis of earnings?—A. May I speak to Mr. Geary? I said in connection with Canada Power and Paper Company amalgamation there was not an appraisal made.

By Mr. Geary:

Q. No appraisal made then, in connection with any of the— —A. Then, the question was, was there ever an appraisal made, and I said yes, to that.

By Hon. Mr. Morand:

Q. There was an appraisal made of some of them?—A. No doubt.

Q. How long ago, just there, how long ago?—A. I mean, it is a common practice, and I have no doubt it took place in a number of cases.

Q. Was it based upon the payment of stock of one concern, or was it based upon the earnings— —A. Neither. It was based on other factors, that can be taken into consideration of each of the companies concerned. For instance, this kind of thing would happen. The directors of this company would sit down and they would say what their good points were, and the other fellows would say what their good points were, and they would sit there and trade with the other directors, and finally they would come to an agreement.

By Mr. Arthurs:

Q. There was a record of the list of shareholders of the subsidiary companies that were finally amalgamated?—A. Yes.

Q. Are they available for the committee?—A. Yes.

Q. I do not think we should have the individual stockholders, but I think we should have those who had 500 shares and around there.

The Chairman: What is the point?

Mr. Arthurs: Considerable interest might be taken in that.

The Chairman: I don't, for the moment, see it, but there is no objection.

The Witness: I have no objection at all.

By the Chairman:

Q. In the huge amount of capitalization that has been built up over a period of years in all this industry, was there not a relatively large sum paid for crown timber limits; that is, the right to cut wood?

Mr. Arthurs: No.

The Chairman: I should think there was.

[Mr. J. H. Gundy]

Mr. ARTHURS: I am speaking of Ontario.

The CHAIRMAN: I should like to know, were there not limits purchased from time to time from the old holders, based on the cordage available? That is a very common practice in New Brunswick. I have paid as high as $2,000 a mile.

Mr. ARTHURS: They were simply leased, as I understand it.

The CHAIRMAN: I am asking the witness.

The WITNESS: I think Mr. Hanson is correct. In a number of cases large sums were paid for timber, which was close to the mill, or available. Now, that is the first angle I received of that, the day when I first became interested in the business. Mr. Biermans was head of the Belgo company, and he bought the control of the company from his associates in Belgium and we financed the transaction for him. He put a great deal of his own money in the company, over $3,000,000 I believe, and he said to me at that time: You are going to see all these mills around Chicoutimi, Laurentide and Three Rivers abandoned, and those towns empty in thirty years, because the wood will all be gone. Now, he was all wrong about that. But the thing that is in the back of the heads of those paper executives all the time, is the fear that they were running out of wood. Big fires would come along, and about two or three years ago we had a big fire which swept across Quebec, and cut the assets of those companies tremendously. There is, all the time, in the back of their minds, a nervousness about shortage of wood. I was talking to one of the heads of one of the companies last week, and it was obvious to me that he has in his mind that nervousness about a shortage of wood. Keep that in mind when you are thinking about Anticosti. There is a great reserve of wood on an island with a damp climate where fires are not a menace, which some day will be a tremendous asset to the newsprint industry in Canada.

By Mr. Coote:

Q. May I ask you a question which is based right on that point. For how long a period are those bond issues generally made for a paper company?—A. Oh, 15 to 20 years.

Q. Is not 25 years twice too long, considering the very risk you have just mentioned?—A. No.

Q. I should think they should have been retired in half that time. If that were done with the earnings, which were sufficient, we would not be faced with the conditions in which we find ourselves to-day, is not that true?—A. No.

The CHAIRMAN: Every bond has a sinking fund attached to it, worked out on a mathematical basis, and if things had not got to where they are, there would have been a lot of money in the business.

Mr. HACKETT: They are all based on depreciation.

By Mr. Coote:

Q. How many million dollars' worth of bonds and preferred stock of pulp and paper companies have gone bad, to use an expression, in the last ten years. If we had those figures, would they not be startling?

The CHAIRMAN: You can get them over at the Bureau of Statistics.

The WITNESS: An awful lot of other securities have gone bad, too.

Mr. GEARY: Is it Mr. Coote's idea all bonds should be retired?

Mr. COOTE: I think bonds in a business that Mr. Gundy says is very risky, should be retired in a shorter term of years.

The WITNESS: I did not say it was risky.

[Mr. J. H. Gundy]

By Mr. Coote:

Q. You made that frank statement?—A. I also pointed out Mr. Biermans was wrong in the estimate of his time. Now, the same thing happened at Port Alfred. They told us that all those limits behind the mill would be gone in five or six years. We are still cutting wood on that, but the operators are always afraid of a shortage of wood.

By Mr. Spencer:

Q. Was there any sinking fund allowed?—A. Always, yes.

Mr. HACKETT: On the basis of depreciation?

The WITNESS: Yes.

Mr. IRVINE: Mr. Chairman, I feel that we have a very vague idea of the whole business, so far as the evidence is concerned. I should like to read over the evidence carefully and see what I can gather from it, but I cannot right now, of course. Will there be in the records the entire capitalization of this whole merger with the sources of the capitalization?

The CHAIRMAN: There will be the balance sheet of the companies, showing their assets, liabilities, profits and losses. I do not know that there would be the source of their capital, borrowed capital filed. Take, for instance, the Laurentide company. They had no bonds at all. Have you seen this?

Mr. IRVINE: When it was taken over, it represented certain assets, and capitalization would probably take place thereon.

The CHAIRMAN: There was not any capitalization. That is the point This company issued no securities to the public.

Mr. IRVINE: Does that apply to the whole merger?

The WITNESS: I guess so.

The CHAIRMAN: That is why I asked you that summing up question There was nothing sold to the public at the time of this amalgamation.

Mr. COOTE: It was all sold before, Mr. Irvine.

Mr. IRVINE: If nothing was sold to the public, I do not see what we are interested in. I thought the public had been left holding the sack in the whole enterprise.

Mr. GEARY: So they were.

The WITNESS: What do you mean?

Mr. IRVINE: The stocks that were bought by the investing public all slumped to nothing?

The CHAIRMAN: These stocks were not sold by the company. They were listed on the stock exchange, and the public bought them in that way from the holders.

Mr. IRVINE: No.

The CHAIRMAN: They were not sold by the corporation itself.

Mr. IRVINE: The company must assume responsibility for the fact the values are not there now, according to the statements of some of the members of the committee. However, I should like to ask the witness one or two questions that are, perhaps, more or less necessary, arising out of the discussions that took place during his examination by Mr. Power.

By Mr. Irvine:

Q. I think that it was admitted, Mr. Gundy, that the banks, or the whole corporation owed the banks some $14,000,000?—A. Yes.

Q. And that about the time that the stock values were at the bank, the amount owing to the bank was about the same. I think you said that at that

time the banks probably had advised selling, at least a considerable portion of the stock at that peak price?—A. I beg your pardon?

Q. I think you admitted that the banks did advise you and others to sell a portion of the stock at the time it was at the peak price?—A. No, you misunderstood me. I did not make any such statement.

Q. Well, the question was, I think, put by Mr. Power, that the banks had stated here that they had so advised generally, and it was particularly directed to you and you said that they probably had; at least, I think you admitted half of it, didn't you?—A. I think so. Look at the record—I think you misunderstood me.

Q. You say what?—A. I have no recollection of any bankers telling me that I had to sell my newsprint shares; and furthermore, it never occurred to me to sell them, because I had no more idea of selling those newsprint shares than selling shares of Wood Gundy and company. They were my own show. I was very interested in them. I did not buy them to sell them. I wanted to keep them forever.

Q. You said so at the time when Mr. Power was questioning you.—A. I do not think I owed the banks any money on them. If I did, it was very small.

Mr. Hackett: I think the question put by Mr. Power was whether the banks had suggested that stocks against which moneys had been borrowed should be sold. He does not say he borrowed money on them.

By Mr. Irvine:

Q. I am not talking about his personal accounts with the bank. I am talking about the $14,000,000 the banks had advanced, and the banks' advice with respect to stock holdings involved.

Mr. Hackett: There are no stocks involved, as I understand it.

Mr. Irvine: I thought there was. There does not seem to have been anything behind the whole thing. That is what I am trying to get at.

Mr. Coote: Bunkum.

The Chairman: Do you think you ought to make that statement?

Mr. Irvine: I did not intend to make it. Until somebody says what the actual physical assets are behind these things, what else can I say, Mr. Chairman. Nobody seems to know anything about it. I have not heard a statement here that you can hang your hat on, by anybody.

The Chairman: I think we ought to ask those pulp and paper people to prepare a statement of the physical assets of the constituent companies as at the time of the amalgamation? Perhaps Mr. Wilson can give it to us.

Mr. Wilson: Would you allow me to say this. I do not want to interfere in anybody else's business. You spoke of the loans the Canada Power and Paper company had from their banks, the Bank of Montreal and ourselves, the $14,000,000, and what was back of it. We had hundreds of thousands of cords of wood. We had one fire, which was not our fault, a fire at the Port Alfred plant where we collected a million dollars of fire insurance.

Mr. Power: That was the best sale of pulpwood you had?

Mr. Wilson: It was the quickest and most profitable thing of any of them in the 12 months. But seriously, we had all the inventories, all the book accounts, wood investments, which, at one time, at the peak were valued at $10,000,000; and we had some 5, 6, 7—I am speaking from memory—first mortgage bonds in the Laurentide company. We had very, very substantial security for that loan. And that loan which in the time mentioned was $14,000,000 is now under $10,000,000 and we still have a lot of security left.

Mr. Geary: Would it be fair to ask you what valuation you put on those inventories?

[Mr. J. H. Gundy]

Mr. WILSON: We did not. You de not loan money against a woodpile. You loan it in the same way you loan it against the government bonds. A fellow comes in and says, we are going into woods, we want to get out half a million feet of cordwood, and it will cost us \$5, \$6, \$7, \$8 a cord. Will you finance it. We agree to finance it. After the wood is cut and it comes out, it is worth \$5 or \$6 a cord when taken to the mill; but on the other hand, they may perhaps spend \$5 to get out something that is only worth \$4.

Mr. IRVINE: I understand, Mr. Wilson, that Mr. Gundy indicated in securing the bank loan, not only were the inventories, but also certain securities were given?

Mr. WILSON: Yes.

By Mr. Irvine:

Q. What were they?

Mr. WILSON: Well, those securities we had in this particular case were, I think, 100,000 shares of Shawinigan company stock, and as was brought out this morning, they were listed at \$82 to \$100. In fact, at one time they were up to \$120, so 100,000 shares were worth \$12,000,000 which was pledged to the banks. At that time they were quoted around \$70, or \$80. In other words, it was \$7,000,000 or \$8,000,000.

Mr. IRVINE: What else?

Mr. WILSON: In addition to that, we had those companies' woodpiles. You have never seen them. The Parliament buildings look small alongside the woodpiles of this company.

Mr. IRVINE: The point I am trying to make can be made right there. So far as the securities go, if every stockholder had taken the advice of the bank and sold, these securities would have come tumbling down much quicker than they did.

Mr. WILSON: The only advice in that connection we could have given was to advise them to sell Shawinigan shares. We were not wise enough on foresight to benefit by that. Everybody regarded Shawinigan as a first class investment. Mr. Power will bear me out on that. If only we could have seen what was around the corner, I would have insisted on the sale of them. I was not wise enough to see that. We kept that, and they have been down to \$10, and are now up around \$25.

Mr. IRVINE: May I ask this: I suppose it is hardly necessary to ask this. Were all your connections with the Canada Power perfectly regular? In all the dealings in all the organizations that you have gone to, have they been perfectly regular?

The WITNESS: Yes.

By Mr. Coote:

Q. I personally do not wish to suggest for a moment that it has not been so. I quite believe that you and your associates were quite capable of doing things regularly, and you would say that the extraordinary high price, and probably as well the low price in stocks was due entirely to the whims of the public?—A. No.

The CHAIRMAN: Marketing conditions.

By Mr. Irvine:

Q. I think you said, at least, the public were responsible for the price of the stocks going to \$275?

Mr. POWER: It was Laurentide that went to \$275.

[Mr. J. H. Gundy]

By Mr. Irvine:

Q. I think you said that was the public's fault, not the company's.—A. The public's judgment.

Q. Lack of judgment.—A. Neither do I think that the public was unintelligent.

Q. I do not think I said unintelligent. I said whims or judgment for the moment. It may be something else, some other times it is obviously something else. To sum up everything, then, do you think the company has played the game as is played by all companies, or do you think the system of doing business, which can take from the public what has been taken during the market operations in connection with this deal, should be changed?—A. Well, certainly, that is the way the world is built. You go in any field of life you like, and it is the same thing. You go out west on the prairies, and you start a farm on the prairies, as I have, you go in partnership with a farmer on the prairies, as I am now, and you know just as well as I do, sometimes you are successful and sometimes you fail, or you go and buy a grocery store on the corner. You know a lot of the fellows that started grocery stores make a little money, and others lose their money. You know a lot of people started banks, on which they made money, and some other bankers lost money. You know the railways pay sometimes; sometimes they lose money and sometimes they make money.

Q. Quite so.—A. If it were not for the hazards of industry our business life would not be half as interesting as it is.

Q. I just wanted to get your view on this. Do you think that the fact that in all businesses, farms and railways and organization of companies and all enterprises, there is undoubtedly not only the danger of loss, but inevitably the loss is part of the game?—A. Yes.

Q. That makes life worth while; that is the way the world is built?—A. That is the way the world is built. Here you have parliament, in the next few days considering going into the gambling business, they are going to introduce sweepstakes to make life more interesting.

Mr. COOTE: I think that would be the safest place to put your money.

The WITNESS: Neither is safe. There is no such thing as safe.

Mr. COOTE: It is the best gamble.

Hon. Mr. MORAND: The sweepstakes?

The WITNESS: Believe me, that is the test.

By Mr. Irvine:

Q. You would say this, that it is not possible for us to devise some system by which the gambling factor was, at least, removed from the necessary economic enterprises of the state?—A. Well now, you have two situations. You have Saskatchewan and you have the Ukraine in Russia. They both had very serious crop failures. In Saskatchewan it cost us a lot of money; but in Russia two or three millions of people starved to death. Now, that is the advantage of having a little capital behind you. You have a hard time in Saskatchewan, but you do not starve to death as those poor devils in Russia did.

Q. I am not arguing with you, sir.—A. You asked me my opinion.

Q. That is your opinion?—A. I think the greatest thing is taking the risk. I think it is life, to have a little capital behind you.

Q. What do you mean by capital?—A. I mean woods, mills, tables, a suit of clothes, a pair of boots.

Q. None of us are objecting to that, sir.—A. That is what I mean by capital.

[Mr. J. H. Gundy]

Q. None of us are objecting to that sort of thing. What we are objecting to is the gambling in stocks and the loss by the general public, perhaps, of the means by which they can get hold of those boots, clothes, and things of that sort.

The CHAIRMAN: Mr. Gundy wrote in response to the invitation which I sent him, or the summons, if you might so call it, giving a statement of the pulpwood and power situation, which I think is very interesting. I am going to put it in the record. It summarizes the whole position. Does anybody else wish to ask Mr. Gundy any questions? (See Appendix AG).

By Mr. Coote:

Q. I should like to ask another question in regard to the Anticosti agreement with the companies. Mr. Gundy, will you tell us just what was the financial liability involved per annum by each of the three companies in their agreement with the Anticosti Corporation?—A. About $540,000 a year for the three of them, plus sinking fund. Is not that right, Mr. Whitehead?

Mr. WHITEHEAD: $350,000 a year.

By Mr. Coote:

Q. Would it not be more than that?—A. I just figured that out. Nine times six is fifty-four, 9,000,000's of securities at 6 per cent would be $540,000. We had to purchase 420,000 cords each year after November, 1929, with a minimum stumpage of $2.40 per cord.

The CHAIRMAN: Until the bonds were retired, and then it came down to $1.40.

Mr. COOTE: Right at the time?

The CHAIRMAN: Yes.

By Mr. Coote:

Q. Yes.—A. You see, they were bound with each other. There were only three people interested, and they made whatever rate—. Suppose they did not take the wood, and did not need the money, they could let it run over for a year. There was nothing onerous about it, so far as the companies were concerned.

Q. I have heard of some of the companies, one of the companies involved, that there was some objection taken to this. I do not know about the story to question you on it, but I would just like to know the financial liability per annum in regard to each of the three corporations that entered into this agreement with the Anticosti company.

The CHAIRMAN: It is easy enough to make it out. None of the gentlemen can give it to you.

Mr. COOTE: I thought Mr. Gundy would have the picture, and would be able to tell me.

The WITNESS: It is six years ago, sir. It is a long time ago. Anyway, this was the figure. It is right here.

By Mr. Coote:

Q. Is this one of the things which made it impossible for those companies to meet their obligations?—A. No, not at all.

Q. It simply added that much to the burden?—A. Of course, I think that the acquisition of the Anticosti improved the position of these three companies very much.

Q. Is there anything in the evidence up to date to tell us how much pulpwood each one of those corporations took from Anticosti?—A. No.

The CHAIRMAN: The actual purchases, not the agreement to purchase?

[Mr. J. H. Gundy]

By Mr. Coote:

Q. If Mr. Gundy thinks this is so advantageous, to any of the companies, I should like to know the amount of the pulpwood that the companies had taken in Anticosti island?—A. When they bought that island, it was not to get pulpwood for the next year, it was looking to the future when wood near their mills would be gone and all other timber around Outard and up in the Chicoutimi district had been snapped up by their competitors, and the life of their mills would depend on the extent of their reserves of wood in the years ahead.

Q. I met a man not long ago who said he was willing to bet that nothing would be taken off it in the next twenty-five years. I do not know whether you would care to express an opinion in regard to that?—A. I do not believe that is a serious statement. I do not believe that at all.

The CHAIRMAN: Mr. Whitehead will be able to give you first hand information.

By Mr. Coote:

Q. I would still like to know whether that has regard to Anticosti Island at all?—A. No.

The CHAIRMAN: Are there any other questions to ask Mr. Gundy? Thank you, Mr. Gundy.

Mr. GEARY: Have you a statement of Port Alfred there?

The CHAIRMAN: Yes we have them all.

Witness retired.

GEORGE CHAHOON, Jr., called.

By the Chairman:

Q. Of Grand Mere, Quebec?—A. Yes, sir.

By Mr. Power:

Q. Mr. Chahoon for how long were you connected with the Laurentide Pulp Company first and then the Laurentide Company?—A. Since 1902.

Q. You came to the Laurentide Pulp Company as it was then known in 1902, is that right?—A. Yes, Mr. Power.

Q. And in course of time became general manager and president?—A. Yes.

Q. When did you become general manager?—A. I was vice-president and general manager when I came in 1902, and I was made president on the death of Sir William VanHorne.

Q. Sir William VanHorne was the first president of the company, was he? —A. Well I cannot tell you very much about what happened before I came, but I think so.

Q. I take it from the figures which I have here, that at the time you became general manager the capitalization of Laurentide, then the Laurentide Pulp Company, was approximately $1,600,000?—A. Yes, $1,600,000 of common stock, and $1,200,000 of bonds.

Q. And you owned at that time one mill?—A. Yes, sir.

Q. And I suppose it is pretty hard to ask you, what was the extent of the timber limits you had then, roughly?—A. Well, what we did not buy from your father, we owned.

Q. I suppose it is up to me to ask you now if you got good value? But you did have considerable areas of timber limits?—A. Yes, Mr. Power.

Q. Then there was no change in the capitalization of your company until 1911 no important change, is that right?—A. I think that the year following my coming up here Sir William VanHorne issued $1,200,000 of preferred stock

to round out the plant, that is, to balance it, and I think that that was about 1904.

Mr. COOTE: Could we have the capacity of the plant put in there, Mr. Chairman?

By Mr. Power:

Q. At the time you took over what was the capacity?—A. We had four paper machines, and my recollection of those machines is that at that time they were making 80 or 90 tons of paper per day, and we had a surplus of both ground wood pulp and sulphite pulp which we were selling to other manufacturers; we were exporting it too.

Q. Your principal business at that time was not the newsprint business?—A. Not altogether, no.

Q. Well, in 1911 the first big change in the capitalization of the company took place, when it was called the Laurentide Company Limited?—A. Yes, sir.

Q. And it was incorporated as such in 1911; you incorporated at that time, as has been related this morning, under a Dominion charter with a capitalization of $10,000,000?—A. Yes.

Q. And the shares of the old company were transferred to the new company on the basis of two for one?—A. Yes, sir.

Q. And then later on there were issued the shares to the shareholders at par?—A. Yes.

Q. To the extent of $2,400,000?—A. Yes.

Q. And then in January of 1920 there was a new capital set-up, was there not?—A. I think there was, yes, sir.

Q. Although the company kept the same name?—A. Yes.

Q. But purchased the assets of the old company?—A. Yes.

Q. And then you were given three for one?—A. Yes, sir.

Q. At least the old shareholders received three shares of the new for one share of the old?—A. Yes sir, that is it.

Q. That would be, from 1911 to 1920 the shareholders then received first two for one?—A. Yes.

Q. And then three for one and two for one?—A. Yes.

Q. Eventually there were 6 shares of the Laurentide Company given for one of the old Laurentide Company?—A. That is right, Mr. Power.

Q. And the value of that stock on the market during the years from 1920 to 1928 ran from 70 to 150?—A. Well, I think 70 to 120 would be fairer.

Q. 70 to 120?—A. Yes.

Q. And all during that time it paid a 6 per cent dividend on the common stock?—A. I think you are practically right. I think there were a couple of years on the start that we paid 5 per cent and then it was raised to 6 per cent.

Q. But there were 6 per cent dividends paid on those shares?—A. I think you are right.

Q. That would be really 36 per cent on the one share?—A. But may I inject a thought in there? In 1910 the United States market was open for the first time and the $6 a ton duty was taken off paper going into the United States, and Laurentide was a pioneer mill.

Q. And then I have no hesitation in mentioning this factor, that during the war, and particularly after, the price of paper went up to what a ton?—A. I beg your pardon, the price of paper was fixed by your government and the government of the United States.

Q. At what?—A. At $62 I think.

Q. Well, then, after the war what did paper go to?—A. Spot paper went up as high as $100 a ton.

Q. Not more than that, Mr. Chahoon?—A. Well, we never sold any for $100 a ton.

Q. You sold for more or for less?—A. We sold for less.

By the Chairman:

Q. You were under contract?—A. Yes.

By Mr. Power:

Q. I was under the impression that spot paper went to over $100 a ton?—A. I think you are right in that Mr. Power.

Q. Now, ground wood went up to what?—A. We were not selling ground wood so I don't know anything about it, but it was some similar fabulous price.

Q. In any case, during the period from 1920 to 1928 at the time when you were merged with St. Maurice Valley, the company was in an exceedingly prosperous condition?—A. I felt so.

By the Chairman:

Q. You had retired your bonded indebtedness?—A. Yes.

Q. Out of earnings?—A. Yes.

Q. And your preferred shares?—A. Yes.

By Mr. Power:

Q. Had you retired your entire bond issue?—A. Yes.

Q. And your preferred shares?—A. Yes, sir.

Q. So that at the time you went into the merger with St. Maurice Valley what was your capitalization, do you remember?—A. $28,800,000.

Q. $28,800,000 in shares of a value of how much?—A. $100.

Q. That is, 288,000 shares?—A. $28,800,000.

Q. Was that 288,000 shares of $100 apiece?—A. Yes, that is it.

Q. And the shares were worth in the neighbourhood of par on the market?—A. Well, towards the end of the thing they were, but I think it is fair to say that during the period in question these shares sold from 68 to 80.

Q. In what condition was your mill?—A. Well, I was general manager, and therefore I thought they were in pretty good condition.

Q. I say that because I have heard it said frequently within the last two or three years that the Laurentide mill was a bit obsolete?—A. Obsolete?

Q. Yes?—A. All right.

Q. I am asking you that, and you say no?—A. I don't think so.

Q. Well, you know better than I do about it.

By the Chairman:

Q. During the same period did you increase your timber limits?

Mr. POWER: I was about to ask that question, Mr. Chairman.

By Mr. Power:

Q. At that time had your limits begun to be depleted—A. No we never allowed our limits to be depleted.

Q. Well, your limits must have become depleted because you bought the people in the Ottawa Valley here?—A. No, sir.

Q. Why did you have to go into the Ottawa transaction?—A. Because we felt, along with the International Paper Co. that the Ottawa Valley was the future near supply of wood and the place to build any extension to the industry as soon as the market developed. The wood from Ottawa had nothing to do at all with the Laurentide mill. It was intended entirely for an addition to the Laurentide Co., not the plant.

Q. I take it then that you had some idea possibly of expanding your business by the construction of a new plant somewhere in the vicinity of Ottawa, and in advance you bought timber limits to supply that plant?—A. You are right.

[Mr. Geo. Chahoon, Jr.]

Q. And you were quite satisfied that you had on the St. Maurice sufficient limits to provide a supply of wood for your mill at Grand Mere?—A. Indefinitely, yes.

Q. So that at the time you went into this merger you had a self-contained plant?—A. That is right.

Q. A self contained unit of production?—A. Yes, sir.

Q. Which had been—I want to save your modesty—efficiently managed, that had continued to be fairly prosperous over a period of years?—A. That is very kind of you.

Q. From 1902 from the time you first became connected with the Laurentide Company until the time of the merger, to what extent were their limits on the St. Maurice increased, approximately how many miles?—A. I think that outside of Ottawa, that is the Laurentide-Ottawa, when we went into the merger the Laurentide mileage was in the neighbourhood of somewhere between 3,000 and 4,000 square miles; that is my memory.

Q. You had no other holdings to speak of?—A. We had, yes. We bought the Perthuis Seignory.

Q. You purchased that. It was not a very large area?—A. No.

Q. Well now, let me come to Laurentide Power which was a subsidiary of the Laurentide Co. Were you manager of Laurentide at the time the power rights were segregated and formed into a new company?—A. Yes, sir.

Q. Do you remember when that occurred, the year?—A. In 1913 I think. I think we started the power development in 1913 and it was interrupted by the war, and my memory is it was 1917 or 1918 that it was completed.

Q. Now, this Laurentide Power Co. was operated by the Shawinigan Co. on your behalf for many years, was it not?—A. Yes, sir.

Q. And you were supplied by Shawinigan?—A. Yes.

Q. Your wants were supplied from the power which belonged originally to Laurentide and had become Laurentide Power?—A. Yes.

Q. It was capitalized at $10,500,000 and $10,500,000 worth of stock was issued?—A. That is my memory.

Q. There was a bond issue of $7,500,000 and another bond issue of $2,-500,000, is that right?—A. Mr. Hanson has the figures here.

The CHAIRMAN: We have not the figures on that, Mr. Power.

By Mr. Power:

Q. Well, those are the figures that I got and I think they are probably right?—A. They are approximately correct Mr. Power.

Q. Well now, the Laurentide Co. retained in its treasury 72,000 shares of Laurentide Power, did it not?—A. That is right.

Q. And presumably sold the remaining shares to the public?—A. To Shawinigan and the public.

Q. Did you sell some to Shawinigan too?—A. Yes.

Q. Do you remember what interest Shawinigan had in this?—A. No, I do not, Mr. Power.

Q. The 72,000 shares gave you control and considerably over control?—A. Yes.

Q. The stock of Laurentide Power ranged from 70 in 1922 to 275 in 1928?—A. It was a very, very small portion of Laurentide Power that was in the hands of the public.

Q. You had the biggest block, 72,000 shares, and Shawinigan had a little?—A. Yes.

Q. And the remainder was in the hands of the public?—A. Yes.

Q. It paid 5 per cent?—A. At the end yes, it was paying 5 per cent.

Q. Was it not paying 5 per cent for some years?—A. My memory is that for about three years it started to pay 2½ to 3 per cent, and it worked its way up to 5 per cent.

Q. Now that was the principal asset that you turned over to Canada Power & Paper when it was formed, these two things, Laurentide Limited with its earning capacity and Laurentide Power?—A. Yes, sir.

Q. And Canada Power & Paper, of course, took over, or at least the bonds of Laurentide Power remained as they were?—A. Yes, sir.

Q. I have here a letter of the Laurentide Co. Ltd., signed by G. Chahoon Jr. dated January 11th, 1928, addressed to the shareholders of Laurentide Co. Ltd. It states:

EXHIBIT 50

LAURENTIDE COMPANY LIMITED

MONTREAL, January 11th, 1928.

To the Shareholders of
Laurentide Company Limited.

At a meeting of the Board held this afternoon, your Directors, after conferring with Directors of St. Maurice Valley Corporation, approved a plan for the amalgamation of the common stock interests of your Company and of St. Maurice Valley Corporation.

The plan involves the exchange of shares of Laurentide Company Limited for shares and debentures of a new Company to be incorporated under the name of Canada Power & Paper Corporation or some other suitable name and to be organized upon the following lines.

The new Company will be a Quebec corporation with its head office at Montreal. Its authorized share capital will consist of 750,000 shares without nominal or par value. Shares will be allotted and issued to holders of shares of Laurentide Company Limited on the basis of one share of the new Company's stock for each share of Laurentide Company Limited transferred to the new Company. In addition, holders of Laurentide Company Limited will be entitled to receive upon such transfer $100.00 principal amount of 5½% Thirty Year Sinking Fund Gold Debentures of the new Company for each share transferred.

Shareholders of St. Maurice Valley Corporation will receive two and one-half shares of the new Company's stock for each common share of St. Maurice Valley Corporation transferred to the new Company.

Upon the acquisition by the new Company of the shares of Laurentide Company Limited and St. Maurice Valley Corporation proposed to be acquired under this plan, the new Company will have 688,000 outstanding shares and outstanding debentures aggregating $28,800,000.

Full particulars of the procedure to be followed by Shareholders in connection with the exchange of shares will be mailed to you at the earliest possible moment.

This amalgamation will bring under unified control the operations of mills of the St. Maurice Valley Corporation group at Shawinigan Falls, Three Rivers and Windsor Mills and of Laurentide Company Limited at Grand'Mere.

These mills have a combined daily capacity of more than 1,400 tons of paper products, the capacity of the St. Maurice Valley Corporation group being about 1,000 tons per day and that of Laurentide Company Limited approximately 400 tons per day.

The bringing together of three large mills situated in close proximity in the valley of the St. Maurice River with contiguous limits which are peculiarly adapted to efficient and economical operation under one control is expected to produce substantial economies.

The pulpwood resources available for the operation of all these properties, including the limits in the Ottawa Valley recently acquired by Laurentide-Ottawa Company, Limited, a wholly owned subsidiary of Laurentide Company

[Mr. Geo. Chahoon, Jr.]

Limited, are estimated to be sufficient to provide for all present requirements and also for future expansion as conditions may warrant.

Through Laurentide Company Limited the new Company will control Laurentide Power Company, Limited, with an installed capacity of 165,000 H.P. hydro-electric energy at Grand'Mere on the St. Maurice River.

After mature consideration your Directors are satisfied that this plan is greatly in the interests of the Shareholders and unhesitatingly recommend it for your acceptance.

By Order of the Board.

G. CHAHOON, Jr., *President.*

That was a letter addressed to all of the shareholders?—A. Yes, sir.

Q. And on the strength of this letter, most of your shareholders, if not all, made the exchange did they not?—A. Yes, sir.

Q. An exchange of shares, as has already been stated here, one share of Laurentide for one share of Canada Power & Paper plus a debenture?—A. A $5\frac{1}{2}$ per cent debenture.

Q. Of the value of $100?—A. Yes, sir.

Q. And with that the Laurentide Co. as a separate entity disappeared, did it not?—A. Yes, sir.

Q. And it was incorporated holus bolus into Canada Power & Paper?—A. Yes.

By the Chairman:

Q. Was it not kept separate as an operating unit?

Mr. POWER: I do not think so.

By Mr. Power:

Q. Was it, Mr. Chahoon?—A. Mr. Hodgson can tell us the set-up of the thing, but the Laurentide stock and the new St. Maurice stock was pledged as security for the debentures of the Laurentide Co.

Q. And the Canada Power & Paper issued debentures then called Laurentide Series, did they not?—A. Laurentide Series, yes.

Q. To the extent of $28,800,000?—A. $28,800,000.

Q. With these debentures they paid the shareholders of Laurentide?

Mr. HACKETT: Part payment.

By Mr. Power:

Q. Now, there were no other outstanding bonds except the Laurentide Power Series; I suppose they were still outstanding?—A. They were still outstanding, yes.

Q. They were not redeemed?—A. No.

Q. They were still outstanding?—A. Yes, they were still outstanding.

Q. Did Canada Power & Paper make any deal with respect to the Laurentide Power bonds, what happened to them?—A. No, the Shawinigan Company absorbed the Laurentide—

Q. I am coming to that afterwards.—A. Oh no.

Q. That was after the merger?—A. That is after the merger.

Q. Well now, I will come to that. At the time of the merger the Laurentide Power was one of the assets, or at least the control of the Laurentide Power Co. was one of the assets of the Laurentide and went into the merger?—A. Yes.

Q. And the bonds remained on the property?—A. Yes.

Q. There was no transaction with respect to the bonds of Laurentide Power? —A. No.

Q. Canada Power got the title to the 72,000 shares. Now, sometime after the merger took place what happened to the Laurentide Power?—A. It was sold to the Shawinigan Company.

[Mr. Geo. Chahoon, Jr.]

Q. That is to say, the 72,000 shares belonging to Canada Power & Paper were sold to the Shawinigan?—A. Yes.

Q. Do you remember for how much?—A. For $150 a share plus a share of Shawinigan stock.

Q. For $150 cash for each share plus one share of Shawinigan stock?—A. Yes, sir.

Q. And those shares of Shawinigan stock, 72,000, went into the treasury of Canada Power & Paper?—A. That is right.

The CHAIRMAN: According to this report they got 79,200 shares of Shawinigan and $10,800,000 in cash and retained their perpetual power.

Mr. POWER: Well that is probably right. So that Canada Power & Paper became the holder of 79,200 shares.

The CHAIRMAN: $10,800,000 in cash and retained the perpetual power contract.

By Mr. Power:

Q. Well now, when did you cease to be connected with Laurentide, or were you connected with Canada Power & Paper after the merger?—A. Yes.

Q. For how long?—A. About a year and a half.

Q. You are not in any way connected with either Canada Power & Paper or Consolidated Power & Paper now?—A. No, sir.

Q. Now, what I would like to ask you about is this: There has been a great deal of criticism, in fact of the most severe criticisms I have heard with respect to Canada Power & Paper is with respect to the manner in which the assets of the Laurentide Power Co. were allowed to dwindle away; the shareholders of Laurentide who agreed to go into this merger were, rightly or wrongly, under the impression that they would retain their right to a separate entity and that the shares which they had represented some physical assets, and my information is that they were very much disappointed when the whole thing blew up and had to be reorganized, that the Laurentide shareholders no longer had the rights that they thought they had; have you heard that story?—A. Oh yes, and I had that same disappointment.

Q. Now, can you tell me something about it?—A. In what way, Mr. Power.

Q. Well, when you went into that merger you had two assets of Laurentide; you had the assets of Laurentide Power that Laurentide Power had sold out to Shawinigan and had received $10,800,000 in cash and 79,200 shares of Shawinigan which was worth so much; were you justified in believing that those assets were held against your shares or debentures, or against your shares in Canada Power & Paper, or your 5 per cent debentures?—A. Yes.

Q. You believed that?—A. I did.

Q. Well, was it so?—A. Yes.

Q. Did it work out that way?—A. Yes. If I understand your question correctly, that is, the Laurentide Company merged with Canada Power & Paper; they did that after due consideration, considering the value of the properties that they were going in with and the forthcoming storm that was ahead of the paper industry. Now, they exchanged their securities with the St. Maurice Valley Corporation on what they, or I and my associates considered a fair trading exchange. We had Laurentide Power as an asset; we had Laurentide-Ottawa as a liability.

By the Chairman:

Q. You had not paid for that?—A. We had not paid for that.

Q. How much was that of a liability?—A. About $7,000,000?

By Mr. Power:

Q. About $7,000,000?—A. Yes.

[Mr. Geo. Chahoon, Jr.]

Q. Well, what happened then? You went in thinking you had made a fair deal, but did you not think or have some idea that the former assets of Laurentide, including Laurentide Power, would be reserved to you as some security?—A. No, sir.

Q. You did not?—A. No, sir. That is, we went into that thing with an exchange of securities and we mixed our assets with the assets of the other company on a trading basis.

By the Chairman:

Q. The debentures were not secured in any way?—A. Yes, the Laurentide issue—

Q. That is only a name; they were unsecured debentures?—A. Yes. (See explanatory note at page 891.)

By Mr. Power:

Q. Was there not a general impression that at least the Laurentide issue of debentures was secured by the shares which Laurentide Power had received from Shawinigan?

The CHAIRMAN: There is nothing in the letter which says that.

By Mr. Power:

Q. I am asking if there was that general question?—A. It wasn't with me.

Q. It was not?—A. No.

Q. Well, now, what became of those shares of Shawinigan?—A. I think they are in the treasury of the Consolidated Power Co.

Q. Are you sure of that?—A. I do not know. They were according to the last annual statement, on their last annual statement.

Q. At one time Canada Power & Paper held 100,000 shares of Shawinigan rising out of the connection between Laurentide and Canada Power & Paper.

Mr. HODGSON: The Laurentide Co. got 72,000 shares of Shawinigan for the Laurentide Power deal. After that Shawanigan declared a 10 per cent stock dividend which brought their holdings up to 79,200 shares. Shortly after that Shawinigan made a subscription rights of shares to the shareholders and the Laurentide exercised its rights, bringing their investment up to 100,000 shares. I think at the close of 1930 the shares of Shawinigan were pledged to the Royal Bank and the Bank of Montreal.

The CHAIRMAN: By Canada Power & Paper.

Mr. HODGSON: By Laurentide.

By Mr. Power:

Q. There is just one difficulty there. After 1928 the Laurentide disappeared and it was really Canada Power & Paper which exercised the rights.

Mr. HODGSON: No, Laurentide was still in existence. The Laurentide Co. is still in existence to-day.

Mr. POWER: It is still in existence?

Mr. HODGSON: Yes.

Mr. POWER: Only in name, but the Laurentide still holds these shares of Shawinigan.

The WITNESS: In 1931, Canada Power and constituent companies were reorganized and the properties transferred to the Consolidated Paper Corporation.

Mr. POWER: Where are the shares now?

Mr. HODGSON: With the Royal Bank and the Bank of Montreal, the property of Consolidated.

Mr. POWER: And they are held as collateral?

The CHAIRMAN: Yes.

Mr. HOWARD: The shares are still out as collateral, but still belong to the Consolidated.

Mr. GEARY: Those shares were put up when the loan was $14,588,000 and after the amalgamation, not for present advances but as security for the past.

By Mr. Power:

Q. Those shares were not pledged for any liability of Laurentide?—A. No. Later on they were, yes, by the Canada Power & Paper.

Q. No, but that was a liability of Laurentide for which they were pledged, or was it a liability of Canada Power & Paper?—A. Of Laurentide.

Q. How did that liability arise?—A. Through the purchase of the Laurentide Co., that is, the Laurentide-Ottawa.

Q. The Laurentide Co. had to pay that after it went into the merger; it had to pay for Laurentide-Ottawa, is that so?—A. Yes, sir.

Q. Something like $7,000,000?—A. Yes.

Q. Why was not that paid for it out of the $10,000,000 cash received from the sale of the Laurentide Power?—A. It was not due for one thing at that time. Of course, Laurentide-Ottawa was purchased with the feeling that in the future, on the sale of Laurentide Power, the proceeds of Laurentide Power would pay for Laurentide-Ottawa.

Q. But they did not?—A. Well, they made a very substantial payment on that, about $2,800,000.

Q. A payment of about $2,800,000 out of the cash received from the sale of Laurentide Power?—A. Yes.

Q. Went to pay for Laurentide-Ottawa?—A. And the limits purchased from Price Bros.

Q. Who purchased from Price Bros?—A. The Laurentide Co.

Q. After the merger or before?—A. Before the merger.

Q. What was the extent of that purchase in money?—A. I am sorry, Mr. Power, but I cannot remember. I will be very glad to get the information for you.

By the Chairman:

Q. Who owns those Laurentide Limits now?—A. The Consolidated Co. That is the Batiscan limits.

Mr. POWER: Mr. Hodgson, do you remember what was paid for the Batiscan limits?

Mr. HODGSON: $1,000,000.

By Mr. Power:

Q. So there was $2,800,000 of the cash received from the sale of the Laurentide Power stock plus $1,000,000 which went towards the payment of the Batiscan limits, that is $3,800,000. Now, can you tell us what became of the other $7,000,000?—A. It was used for the general conduct of the business.

Q. Of Canada Power & Paper?—A. Yes.

Q. So that there was $7,000,000 in cash, clear cash, that went into the general conduct of the business of Canada Power & Paper from the assets of Laurentide?—A. Well, there were 28,000 shares of Shawinigan that were purchased at that time.

Q. Mr. Hodgson says that the rights which were taken up from Shawinigan cost one and a quarter millions, but when Laurentide went into the merger it had a bank loan of three and a half million dollars.

Mr. HODGSON: About that, between three million and three and a half.

Mr. POWER: When it went into the merger.

Mr. HODGSON: The annual report for 30th June, 1927, shows a bank loan from the Bank of Montreal of $1,210,754.70.

The WITNESS: Our loan from the bank of Montreal when we went into the merger was generally a little bit over $3,000,000 or about, normally.

By Mr. Power:

Q. A little bit over $3,000,000?—A. I think some properties were returned.

Q. Well then, you did not have so much liability. Can you tell me if the 100,000 shares of Shawinigan were pledged to the bank for the ordinary operations of Canada Power & Paper?—A. Yes.

Q. And you are quite sure, Mr. Chahoon, that it was not in the minds of the shareholders and debenture holders of Laurentide that they had some kind of claim on that 100,000 shares of Shawinigan?—A. Well, I do not see how they could have, Mr. Power. Laurentide was exchanged lock, stock and barrel with shares of the St. Maurice Co. on the same basis, and none of the assets, or none of the liabilities, were earmarked in either case.

Q. As I remember it, it was the general impression at that time that Laurentide was, to some extent, protected by the holdings, by these shares. However, as you say it was just a straight exchange and there was nothing provided, no provision made for special guarantee to the debenture holders or the shareholders, and you think they had the wrong idea, it was unfounded on fact?—A. Yes.

Mr. HACKETT: That may have arisen under the Laurentide Series.

The CHAIRMAN: They were just designated, as I understand it, but not specially earmarked.

By Mr. Power:

Q. Now, what do you consider to be the value of your former Laurentide stock and former Laurentide debentures to-day?—A. Well, I would rather not answer that, Mr. Power, because it would be a guess.

Q. It would be a guess?—A. Yes.

Q. At the present time your shares in Canada Power & Paper are worth what?—A. You mean in Consolidated?

Q. Yes, in Consolidated?—A. Oh, I think they have been shuffled around so often that I do not know.

Q. You have lost track?—A. What I have are up at the bank as collateral and I have lost all interest.

Q. You are like many another good man, letting the bank worry about it.—A. Oh, I am worrying, too.

Q. In any event, the shares that you obtained for your Laurentide shares, the shares of Canada Power & Paper which you obtained were exchanged 20 shares for 1 share of Consolidated, common shares?—A. That is a matter of record; I really have forgotten.

Q. 20 shares of Canada Power & Paper for one share of Consolidated.

Mr. HODGSON: 10 shares.

By Mr. Power:

Q. 10 shares of Canada Power & Paper for one share of Consolidated; it is worth on the market to-day what, $4?—A. $3.

Q. Now, your debentures of Laurentide were traded in for debentures of Consolidated?—A. Bonds of Consolidated.

Q. Second mortgage bonds, were they not?—A. No, sir.

[Mr. Geo. Chahoon, Jr.]

Q. First mortgage bonds of Consolidated?—A. These were real gilt edge bonds.

The CHAIRMAN: What did you get?

Mr. HODGSON: 15 per cent of bonds and a share and a half of stock.

By Mr. Power:

Q. 15 per cent of bonds and a share and a half of common stock for every $100 of debentures, is that it?—A. Yes.

Q. You cannot tell me what the Consolidated Power & Paper bonds are worth to-day, can you?—A. I tried to get that information out of Mr. Whitehead coming up on the train last night but he would not give it to me.

Q. Is there a market value for Consolidated Power & Paper bonds?

Mr. HODGSON: The last time I saw it it was $26.

The CHAIRMAN: They gave them a moratorium of 5 years on the interest, did they not?

Mr. GEARY: Every year they notify them: Don't pass this coupon, it is not payable this year.

By Mr. Power:

Q. Well now, I suppose I am as much in the dark as you are as to what value you could attach to the original shares of Laurentide.

By Mr. Howard:

Q. I just want to ask Mr. Chahoon, as an expert in values of pulp wood, and not being connected with the company I think it is fair to ask him these questions regarding the Anticosti Corporation. What do you consider would be a fair valuation of the Anticosti property in 1927 to 1929 we will say?—A. May I use the Abraham Lincoln method by asking you a question because you are more of an authority on the price of wood than almost anybody in eastern Canada; what do you consider the value of that wood—not to-day because nothing has any value, but in 1929 and 1940.

Q. Well, you answer and then I will tell you.—A. I say $2 a cord.

Mr. POWER: That is $30,000,000 for Anticosti?

Mr. HOWARD: You are right on any other place but Anticosti, but don't you think $1 a cord would be a fair valuation?

The WITNESS: I think $15,000,000 is a fair valuation.

By Mr. Howard:

Q. So do I—A. An honest valuation.

Q. But you are optimistic enough to think that in 1940 it would be worth $15,000,000?—A. That is my guess on it, and if I had money to tie up I would say that Anticosti was a very good investment.

By the Chairman:

Q. Mr. Chahoon, what was the underlying reason for the merger; what was the underlying motive that actuated your board of directors in going into this merger?—A. The underlying reasons were principally the idea of keeping the industry from flying into a thousand parts. Everybody had started in just like a gold rush to exploit the paper industry. We felt, I felt myself that if the paper industry could be organized into three groups—a Quebec group, and Ontario group, and the International Paper Co.—that the government would be protected, the power companies would be protected, the public would be protected, and the thing would be run in an intelligent, economical manner. One of the reasons why we joined up with the St. Maurice division rather than yield to the courting that we had from some of the others was because there were certain

[Mr. Geo. Chahoon, Jr.]

economies, economies in wood supply and the proximity of the mill. We were all, with the exception of Anticosti, within an hour's touch of each other, of what was really a beautiful group of large mills.

Q. Now then, was there not some idea of being a foil to the International?—A. No.

Q. In the marketing end of it?—A. No, sir.

Q. That did not enter into it at all?—A. No, sir. The International were conceded their fair share of the market, the same as Abitibi, and Backus, and the rest of them. The so-called Hearst contract was not made until long after that.

Q. Now then, the merger has not proven successful. Is it not your opinion that this country had better get back to smaller units in business?—A. No, sir.

Q. Well, I think a lot of people would disagree with you.—A. I am just giving you my opinion.

The CHAIRMAN: I agree, that is your statement.

By Mr. Howard:

Q. Might I ask a question along that line. In spite of that answer, do you not think Mr. Chahoon, that a smaller unit can be more economically managed than a larger unit?—A. No. I think it can be more humanely operated than a large unit, but I do not think it can be as economically managed.

Q. I do not mean as to profits, I mean economically managed. Don't you get more value for your money in a small unit and is it not better looked after than if it were in a larger organization?—A. If your plants are scattered from Manitoba, and through the province of Ontario and into Quebec I would say yes. Where you have three or four mills that are not an hour from each other, where your purchasing can all be done by one man, and your operating and all that, I think a larger unit will show a better efficiency than a small unit. I think that has been demonstrated in our case.

Q. Yes, naturally as it consists of certain districts, in other words, districts can be more economically managed, I agree with that. Another question, Mr. Chahoon, you were a large shareholder of the Laurentide Company?—A. Yes.

Q. A very large shareholder?—A. Yes.

Q. And you had no other consideration except the interests of your shareholders when you decided to go into this merger?—A. That is it.

Q. You got nothing outside of it except the stock which you exchanged and you considered it personally a good deal?—A. Yes. I never sold a share of stock.

The CHAIRMAN: Is not the history of all these big mergers that as a rule they have been failures, and should not the trend of events in this country be to get them back to the old family unit, if possible?

Mr. POWER: Mr. Gundy made the statement that you could not unscramble the eggs that have gone into the Canada Power & Paper basket.

The CHAIRMAN: These balance sheets and letters and so forth will now be made part of the record.

EXHIBIT 51

CANADA POWER & PAPER CORPORATION

THIRD ANNUAL REPORT

To the Shareholders:—

On behalf of the Directors, I submit the Third Annual Report of the Corporation for the period ended December 31st, 1930, with Consolidated Balance Sheet and Profit and Loss Account, as certified by your Auditors, Messrs. P. S. Ross & Sons, Chartered Accountants, Montreal. These statements embody the consolidation of St. Maurice Valley Corporation, Lauren-

tide Company, Limited, Wayagamack Pulp & Paper Company Limited, Port Alfred Pulp & Paper Corporation, The Anticosti Corporation, with their subsidiaries, and Anglo-Canadian Pulp & Paper Mills Limited. The operations of the latter are for the eight months from May 1st, 1930.

The operations for the period reflect the difficult times attending the industry, which has been suffering from a policy of aggressive building of new mills. The serious over-expansion of mill capacity has been accompanied by a decline in consumption in 1930 of approximately 8 per cent, this being the first year which failed to show an increase in consumption since 1921. The operations of your Corporation were at the rate of approximately 56 per cent of capacity in 1930, as against 77 per cent in 1929. Consumption in the early months of 1931 shows a still further decline, operations to date being at the average rate of approximately 43 per cent.

A comparison of the results of the operations for 1929 and 1930 periods is as follows:—

	1929	1930
Profit and Income from Operations and Investments	$8,604,723 09	$6,184,955 23
Subsidiary Companies' Bond Interest	$2,480,283 42	$2,935,895 87
Canada Power Debenture Interest	1,706,654 36	1,950,289 01
Preferred Dividends	1,769,999 25	1,750,000 00
Depreciation and Depletion	2,521,878 52	
	$8,478,815 55	$6,636,184 88
Profit	$ 125,907 54	
Loss		$ 451,229 65

If the usual depreciation and depletion charges had been made, the loss for 1930 would have been $2,382,039.66.

The properties of the Corporation have been well maintained.

Investments have been written down to the market value at December 31st, 1930, involving a deduction from Surplus of $4,717,795.31.

During the year your Corporation accepted an offer from the majority shareholders of Anglo-Canadian Pulp & Paper Mills Limited for an exchange of shares on the basis of two and one-quarter shares of your Corporation for each Common Share of Anglo-Canadian Pulp & Paper Mills Limited. In accepting this offer your Corporation subrogated itself in the guarantee of the Bond Interest and Preferred Dividends of Anglo-Canadian Pulp & Paper Mills Limited. To ensure the due carrying out of such agreement the majority of shares mentioned above are deposited, subject to reversion, with Montreal Trust Company.

The Company's Bank Loans at the end of the year stood at $14,558,000. During the current year, capital payments of $5,748,641.79 are required, of which $4,429,882.09 are on behalf of the Laurentide Company Limited. Your Directors, therefore, have deemed it necessary to authorize the creation of an issue of bonds on the property of the Laurentide Company Limited, which bonds have been made available for banking purposes. Your Corporation finds itself under the necessity of exerting every effort to conserve its resources. With this in view, steps have been taken to defer the dividends on the preferred stocks of subsidiary companies.

It was with regret that your Directors accepted the resignation of Mr. George Chahoon, Jr., as President of the Corporation. We still have, however, the benefit of his experience as a member of the Board of Directors.

Your Directors desire to record their appreciation of the services rendered by the staff and employees of all departments throughout the year.

Submitted on behalf of the Directors.

J. H. GUNDY, *President.*

Montreal, February 27, 1931.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For Period ended 31st December, 1930

Profit and Income from Operations and Investments		$ 6,184,955 23	
Deduct:			
Bond and Debenture Interest—			
Subsidiary Companies	$ 2,935,895 87		
Canada Power & Paper Corporation	1,950,289 01		
		4,886,184 88	
			$ 1,298,770 35
Whereof:			
Dividends Paid, Preferred and Common Subsidiary Companies		$ 1,750,000 00	
Loss for period before Depreciation and Depletion		451,229 65	
			$ 1,298,770 35

CONSOLIDATED CAPITAL AND SURPLUS ACCOUNT

For Period ended December 31st, 1930

Capital Stock:				
31st December, 1929, represented by of No Par Value	1,218,000 shares		$19,465,408 79	
Issued for Anglo-Canadian Pulp & Paper Mills Limited— No Par Value Common Stock	303,750 "			
			675,475 00	
	1,521,750 shares			$20,140,883 79
General Reserve				13,636,370 95
				$33,777,254 74
Surplus:				
Balance at credit of Consolidated Surplus Accounts 31st December, 1929, and including surplus balances at date of acquisition of various Companies			$13,236,393 37	
Deduct:				
Interest and Expenses applicable to Capital Account		$ 232,685 78		
Prior Year Adjustments		138,147 68		
			370,833 46	
			$12,865,559 91	
Deduct:				
Net Loss for period transferred from Consolidated Profit and Loss Account before provision for Depreciation or Depletion		$ 451,229 65		
Provision for excess of book value of certain investments over market value		4,717,795 31		
			5,169,024 96	
				7,696,534 95
Balance at credit 31st December, 1930				$41,473,789 69

AUDITORS' CERTIFICATE

To the Shareholders:

We have compared the attached Consolidated Statements as at 31st December, 1930, with the books of account and records of the Canada Power & Paper Corporation and its subsidiaries, including Anglo-Canadian Pulp & Paper Mills Limited, the majority of which shares have been escrowed and are subject to reversion in certain events. We have accepted the certified consolidated statements of Messrs. Riddell, Stead, Graham & Hutchison, Chartered Accountants, as regards Wayagamack Pulp & Paper Company Limited and its subsidiary companies.

The pulpwood, stores, pulp and paper on hand are included in the inventories at not more than cost and have been certified to as to quantities and prices by responsible officials of the Corporation. The logging expenditures and improvement on account of future operations are also included in the inventory totals at depreciated values.

No provision has been made for depletion or depreciation for the current period.

We have obtained all the information and explanations required by us.

We certify that, subject to the foregoing and the valuation of the shares and advances to associated companies, the attached Consolidated Balance Sheet and relative Surplus and Profit and Loss Accounts at 31st December, 1930, as signed by us are properly drawn up so as to exhibit a true and correct view of the state of affairs of the combined companies at that date, according to the best of our information, the explanations given to us and as shown by the books of account and records examined by us.

P. S. ROSS & SONS,
Chartered Accountants.

Montreal, 19th February, 1931

CONSOLIDATED BALANCE SHEET AS AT 31st DECEMBER, 1930

Assets

Cash on Hand and in Banks	$ 826,228 52
Accounts and Bills Receivable	4,777,125 02
Inventories	21,679,829 96
Other Investment Securities at Market Value	6,381,042 66
Montreal Trust Company—Employees' Stock Fund	72,777 00
Deferred Charges	571,846 14
Shares in and Advances to Associated Companies	6,240,479 64
Real Estate, Plant and Machinery, Timber Limits, Organization Expenses, etc.	172,425,282 72
	$212,974,611 66

Liabilities

Bank Loans—Secured under Section 88 of the Bank Act and pledge of certain other Assets	$14,558,000 00
Accounts and Bills Payable	3,316,282 50
Accrued Bond and Debenture Interest and Minority Shareholders' Dividends	2,152,283 52
Accrued Preferred Dividends	224,000 00
Montreal Trust Company—Secured Loan	557,948 20
Capital Liabilities—of which $1,385,000.00 due and paid January 2nd, 1931	5,748,641 79
FUNDED DEBT AND PREFERRED STOCK OF:	
Subsidiary Companies:	
Bonds and Debenture Stock	59,295,705 00
Preferred Stock	32,000,000 00
Canada Power & Paper Corporation 5½% Collateral Trust Sinking Fund Gold Debentures, due 1958—including provision for balance of exchange	35,466,700 00
Reserves for Depreciation, Depletion and Contingencies	18,166,260 36
Reserve for Belgo Canadian Paper Company Limited Common Stock not owned by the Corporation	15,000 00
CAPITAL AND SURPLUS: Represented by 1,521,750 shares of an authorized issue of 2,000,000 shares of No Par Value Common Stock (including provision for balance of exchange) as per Schedule attached	41,473,789 69
	$212,974,611 66

Laurentide Company Limited—6% First Mortgage Gold Bond issue of $15,000,000.00 authorized 29th December, 1930.

CONTINGENT LIABILITIES:	
Notes of General Power & Paper Company Limited (owned jointly with Abitibi Power & Paper Company Limited) for purchase of Thunder Bay Paper Company Limited, endorsed for	$ 5,348,588 01
Dividends on Anglo-Canadian Pulp & Paper Mills Limited Preference Shares cumulative from 1st April, 1930, amounting to	420,000 00
Bills under Discount	189,550 00

Approved on behalf of the Board:

(Signed)

C. R. WHITEHEAD, *Director*.
G. CHAHOON, JR., *Director*.

CANADA POWER & PAPER CORPORATION

Report for the Year ended December 31st, 1930

Officers: Sir Herbert S. Holt, Chairman of the Board. J. H. Gundy, President; George M. McKee, Senior Vice-President; C. R. Whitehead, Executive Vice-President; R. A. McInnis, Vice-President in charge of Operations; F. W. Clarke, Vice-President; G. Wilfred Hodgson, Secretary; D. L. Adams, Treasurer; J. W. Hodgson, Assistant Treasurer; J. E. Ward, Assistant Treasurer.

Directors: Geo. Chahoon, Jr., H. Crabtree, John Cowley, Edwin Hanson, F. J. Humphrey, Geo. M. McKee, G. H. Montgomery, K.C., The Viscount Rothermere, C. Howard Smith, A. Cross, F. W. Clarke, J. H. Gundy, Sir Herbert S. Holt, Hugh MacKay, K.C., C. B. McNaught, J. W. Pyke, F. A. Sabbaton, C. R. Whitehead.

Exhibit 52

CANADA POWER & PAPER CORPORATION

First Annual Report

To the Shareholders:

On behalf of the Directors, I wish to submit the Annual Report for the year ended December 31st, 1928, with Consolidated Balance Sheet and Profit and Loss Account, as certified by Messrs. P. S. Ross & Sons, Chartered Accountants, Montreal. These statements embody the consolidation of the St. Maurice Valley Corporation, the Laurentide Company, Limited, and their subsidiaries. The operating profits, including income from Investments and general interest, were $5,376,585.07, and after deduction of Bond and Debenture Interests of $2,813,088.29, the balance was $2,563,496.78. From this there has been appropriated the customary Depreciation and Depletion Reserves $1,332,404.75; paid for Preferred and Common Dividends of subsidiary companies $1,050,444, leaving a surplus available for the year of $180,648.03.

Owing to over production and otherwise unsatisfactory conditions in the newsprint industry, the mills have been operated on a curtailed basis; this condition may be maintained until consumption and production become more nearly balanced.

In August last, negotiations were concluded for the purchase of the Laurentide Power Company, Limited, by the Shawinigan Water & Power Company. Your Company's interest in the Laurentide Power Company, Limited, consisted of 72,000 Shares of Laurentide Power Company, Limited, and a practically perpetual power contract. As results of this transaction, the power contract has been retained, the Company has received 79,200 Shares of Shawinigan Water & Power Company, and will shortly receive $10,800,000 cash. The effect of this transaction is reflected in the Balance Sheet which shows net current assets of $22,676,178.10.

Your Directors have arranged for the exchange of the Company's Common Stock interest in the Canada Paper Company for 20,000 shares of the Common Stock of Howard Smith Paper Mills, Limited. This was deemed advisable as the products of the Canada Paper Company are closely allied to those of the Howard Smith Paper Mills, Limited.

During the year, your Company has acquired by purchase an additional amount of standing timber, estimated at approximately 1,000,000 cords. As this timber is adjacent to the mills and adjoins some of your other holdings, it is undoubtedly a valuable addition to your wood reserves.

Your Directors desire to record their appreciation of the services rendered by the staff and employees of all departments throughout the year.

For the Directors,

GEO. CHAHOON, Jr.,
President.

Montreal, March 12th, 1929.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For Year ended December 31st, 1928

Gross profit from Operations			$ 4,839,871 21
Income from Investments and General Interest			536,713 86
			$ 5,376,585 07
Deduct:—			
Bond and Debenture Interest:			
Belgo Canadian Paper Company Limited		$ 546,120 00	
St. Maurice Valley Corporation		682,968 29	
Canada Power & Paper Corporation, including dividend on minority shares of Laurentide Co. Limited		1,584,000 00	
			2,813,088 29
			$ 2,563,496 78
Whereof:			
Depreciation and Depletion Reserves		1,332,404 75	
Dividends paid:			
Preferred:			
St. Maurice Valley Corporation 7%	$ 700,000 00		
Belgo Canadian Paper Company Limited 7%	350,000 00		
		1,050,000 00	
Common:			
Belgo Canadian Paper Company Limited, Minority Stockholders		444 00	
Surplus (subject to Federal Income Tax)		180,648 03	
			$ 2,563,496 78

AUDITORS' CERTIFICATE

To the Shareholders:

We have compared the attached Consolidated Balance Sheet as at 31st December, 1928, with the books of account and records of the Canada Power & Paper Corporation and its subsidiaries, with the exception of the Laurentide Company Limited, where we have accepted the certified statements of Messrs. Sharp, Milne & Company. We have obtained all the information and explanations required by us.

The inventories, as certified to by your officials, have been incorporated in the statements as at 31st December, 1928.

Subject to the foregoing, we certify that, in our opinion, the Consolidated Balance Sheet and relative Profit and Loss Account as at 31st December, 1928, as signed by us, exhibit a true and correct view of the state of affairs of the combined companies as at that date, according to the best of our information, the explanations given to us, and as shown by the books of account and records examined by us.

Respectfully submitted,

(Signed) P. S. ROSS & SONS, Chartered Accountants.

Montreal, February 21st, 1929.

CONSOLIDATED BALANCE SHEET, DECEMBER 31ST, 1928

Assets

FIXED:		
Real Estate, Plant and Machinery and Timber Limits, etc., and 20,000 Common Shares no par value of Anticosti Corporation		$82,659,428 82
CURRENT:		
Accounts and Bills Receivable, including amount due by Shawinigan Water & Power Co.	$13,649,684 22	
Investments	7,807,764 00	
Inventories	12,546,643 68	
		34,004,091 90
Montreal Trust Company—Employees' Stock St. Maurice Valley Corporation		306,525 02
Deferred Charges		416,904 82
		$ 117,386,950 56

Approved on behalf of the Board:
(Signed)
GEO CHAHOON, JR., President.
A. CROSS, Director.

Liabilities

FIXED:			
7% Cumulative Preferred Shares—$100 par.			
St. Maurice Valley Corporation (including $5.00 par) Authorized and Issued)		$10,000,000 00	
Belgo Canadian Paper Company Limited Authorized and Issued		5,000,000 00	
			$15,000,000 00
First Mortgage Sinking Fund Gold Bonds			
St. Maurice Valley Corporation. Authorized$15,000,000.00			
Issued:			
Series A, due 1945–6%	9,999,833 00		
Less: Redeemed	637,603 33		
		9,362,229 67	
Series B, due 1957–5½%		2,000,000 00	
Belgo Canadian Paper Company Limited—6% due 1943. Authorized and Issued	$10,000,000 00		
Less: Redeemed	1,020,000 00		
		8,980,000 00	
Canada Power & Paper Corporation Gold Debentures. Authorized $100,000,000.00 Issued: 5½% Collateral Trust Sinking Fund, Laurentide Series, due 1958—including Reserve for balance of exchange common shares Laurentide Company Limited		28,800,000 00	
			49,142,229 67
Capital Liabilities Deferred			5,766,000 00
CURRENT:			
Bank Loans and Advances		7,305,666 77	
Accounts and Bills Payable		2,688,369 24	
Accrued Bond and Debenture Interest		1,144,877 79	
Accrued Preferred Dividends		189,000 00	
			11,327,913 80
RESERVES:			
Depreciation, Depletion and Contingent		8,207,852 86	
Belgo Canadian Paper Company Limited Common Stock not owned by St. Maurice Valley Corporation		20,100 00	
			8,227,952 86
Montreal Trust Company—Employees' Stock Loan, St. Maurice Valley Corporation			306,525 02
CAPITAL AND SURPLUS:			
Represented by 750,000 shares no par value Common Stock, of which 688,000 shares (including Reserve for balance of exchange of St. Maurice Valley Corporation and Laurentide Company Limited Common Shares) are issued and fully paid up		9,753,424 97	
General Reserve		13,536,370 95	
Profit and Loss		4,326,533 29	
			27,616,329 21
			$117,386,950 56

CANADA POWER & PAPER CORPORATION

Report for the Year ended December 31st, 1928

Officers: Sir Herbert S. Holt, Chairman of the Board; George Chahoon, Jr., President; George M. McKee, Vice-President and Managing-Director; G. Wilfred Hodgson, Secretary-Treasurer; J. W. Hodgson, Assistant Secretary-Treasurer; R. W. Louthood, Assistant Secretary-Treasurer; J. E. Ward, Assistant Secretary-Treasurer.

Directors: George Chahoon, Jr., J. H. Gundy, Sir Herbert S. Holt, G. H. Montgomery, K.C., Geo. M. McKee, F. A. Sabbaton, A. Cross, Sir Lomer Gouin, Edwin Hanson, C. B. McNaught, J. W. McConnell, W. E. Wilder.

EXHIBIT 53

PORT ALFRED PULP & PAPER CORPORATION

FIFTH ANNUAL REPORT

To the Shareholderss—

On behalf of your Board of Directors, I submit herewith the Fifth Annual Report of the Corporation, with Balance Sheet and Profit and Loss Account, for the fiscal year ended December 31st, 1928, as certified by Messrs. P. S. Ross & Sons, Chartered Accountants, Montreal. The operating profits, for the year were $1,929,536.69 and after deduction of Bond and other interest, the usual allowances for Depreciation and Depletion of $1,251,274.51, the net operating surplus was $678,262.18. From this has been paid Preferred Dividends $420,-000.00, leaving a surplus for the year of $258,262.18.

Owing to overproduction and unsatisfactory market conditions in the newsprint industry the mills have been operated on a much restricted output, and full operation cannot be expected until consumption and production are more nearly balanced.

The Mills and Property of the Corporation have been maintained in a high state of efficiency and are in condition to take advantage of maximum operation when conditions warrant.

Respectfully submitted on behalf of the Board.

GEO. M. MCKEE, *President.*

MONTREAL, March 12th, 1929.

AUDITORS' CERTIFICATE

To the Shareholders:—

Gentlemen:

We have compared the attached Balance Sheet as at 31st December, 1928, with the books of account and records of the Port Alfred Pulp and Paper Corporation and have obtained all the information and explanations required by us.

The Inventories as certified by your officials have been incorporated in the statements as at 31st December, 1928.

Mill Properties and Plant are shown at value as at 31st December, 1926 as certified to by H. S. Taylor, M.E.I.C., M.A.C.E., A.S.M.E., Consulting Engineer, Montreal, and the Timber Limits as certified to by Thomas Maher, B.A., Forestry Engineer, Quebec, with additions to date.

Subject to the foregoing we certify that, in our opinion, the attached Balance Sheet and relative Profit and Loss Account as at 31st December, 1928, as signed by us, exhibit a true and correct view of the state of affairs of the Corporation as at that date, according to the best of our information, the explanations given to us and as shown by the books of account and records examined by us.

Respectfully submitted,

P. S. Ross & Sons,
Chartered Accountants.

Montreal, March 6th, 1929.

PORT ALFRED PULP & PAPER CORPORATION

PROFIT AND LOSS ACCOUNT

Year ended December 31st, 1928

By Gross Profit from Operations		$ 1,929,536 69
DEDUCT:—		
Bond, Bank and other Interest		818,376 35
		$ 1,111,160 34
WHEREOF:—		
Depreciation and Depletion Reserves	$ 432,898 16	
Preferred Dividends Paid	420,000 00	
Surplus (subject to Federal Income Tax)	258,262 18	
		$ 1,111,160 34

BALANCE SHEET AS AT DECEMBER 31ST, 1928

Assets

FIXED:—		
Mill Properties, Plant and Equipment, including New Construction, Water Powers, Timber Limits and Leases and Equity in Housing Properties, etc., and 20,000 Common Shares, no par value, of the Anticosti Corporation		$33,195,306 91
CURRENT:—		
Cash	$ 163,053 05	
Accounts and Bills Receivable	849,582 05	
Investments	1,638,947 00	
Inventories	3,969,593 48	
Advance Stumpage	26,000 00	
		6,647,175 58
Deferred Charges		69,705 10
		$39,912,187 62

Liabilities

FIXED:—		
7% Cumulative Preferred Shares, $100 par value Authorized, $6,000,000		
Issued	$ 6,000,000 00	
First Mortgage Sinking Fund Gold Bonds:— Authorized, $35,000,000		
Issued: 5½% Series "A", due 1957 (including Registered Debenture Stock)	14,999,667 00	$20,999,667 00
CURRENT:—		
Accounts and Notes Payable	1,453,735 47	
Bank Loans	942,000 00	
Accrued Bond Interest	137,498 76	
		2,533,234 23
RESERVES:—		
Depreciation, Depletion and other Reserves		1,728,099 82
CAPITAL AND SURPLUS:—		
Represented by 120,000 Shares no par value Common Stock issued and fully paid	13,113,661 07	
Profit and Loss Account	1,537,525 50	
		14,651,186 57
		$39,912,187 62

Audited and verified as per attached report,

(Signed) P. S. ROSS & SONS,
Chartered Accountants.

Approved on behalf of the Board,

(Signed) J. H. GUNDY } Directors.
A. CROSS }

PORT ALFRED PULP & PAPER CORPORATION

Annual Report for the Year ended December 31st, 1928

Officers: Sir Herbert S. Holt, Chairman of the Board; George M. McKee, President; Arthur Cross, Vice-President; R. O. Sweezey, Vice-President; Alfred Wagner, Secretary-Treasurer; G. Wilfred Hodgson, Comptroller; J. W. Hodgson, Assistant Secretary-Treasurer; R. W. Louthood, Assistant Secretary-Treasurer; J. E. Ward, Assistant Secretary-Treasurer.

Directors: Arthur Cross, J. H. Gundy, Sir Herbert S. Holt, George M. McKee, E. A. Macnutt, R. O. Sweezey, C. E. Taschereau.

EXHIBIT 54

WAYAGAMACK PULP & PAPER CO. LIMITED

Directors: C. R. Whitehead, President and General Manager; James W. Pyke, Vice-President; Hugh Mackay, K.C., G. H. Duggan, Alex. Maclaren, Norman J. Dawes, J. Frater Taylor.

Executive Committee: James W. Pyke, Chairman; Hugh Mackay, K.C., C. R. Whitehead; Geo. Henderson, Comptroller; D. L. Adams, Secretary-Treasurer.

Manager: F. I. Ritchie.

General Superintendent: R. Collins.

Head Office and Works: Three Rivers, P.Q.

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

Three Rivers, P.Q., December 20, 1928.

Your directors submit the sixteenth annual report of the company, together with balance sheet as at November 30, 1928, and profit and loss account for the year ended that date.

The earnings for the twelve months, after making provision for income tax, but before providing for interest on bonds, depreciation on buildings and plant, and depletion of limits, amounted to $1,330,400.97.

In March last the shareholders were given the right to purchase 33,333 shares of new stock of the company without nominal or par value, at the price of $60 per share. The proceeds of this issue will be used to retire the 6½ per cent Five-Year General Mortgage and Collateral Trust Gold Bonds when due on January 1, 1930, and for general purposes of the company.

During the year your company disposed of its Gaspe timber limits, and acquired another limit adjacent to your holdings on the Portneuf River, so that your company's timber areas now consist of 1,121 square miles in the St. Maurice District, 553 square miles on the Portneuf River and a one-third interest in the Island of Anticosti.

Your directors desire to record their appreciation of the faithful and efficient service rendered by the officers, staff and employees of all departments throughout the year.

The accounts have been audited by Messrs. Riddell, Stead, Graham & Hutchison, and their report is appended hereto.

Submitted on behalf of the directors.

C. R. WHITEHEAD,
President.

WAYAGAMACK PULP AND PAPER COMPANY, LIMITED

Balance Sheet as at 30th November, 1928

ASSETS

Current Assets:			
Cash on Hand, in Bank and Call Loans		$ 965,436 38	
Accounts and Bills Receivable:			
Less Reserve for Bad and Doubtful Debts		1,196,028 01	
Inventories:			
Pulpwood and Logs	$ 1,616,329 56		
Stores, Chemicals and Fuel	489,586 34		
Pulp and Paper	83,644 89		
Logging Expenses, Season 1928–29, including supplies at Depots	179,045 02		
		2,368,605 81	
			$ 4,530,070 20
Advances to the Anticosti Corporation			578,870 32
Investments, including 20,000 Shares of Common Stock of The Anticosti Corporation, carried at $1.00			97,734 46
Investments (Call Loans and Bonds) to retire 6½% 5-year General Mortgage and Collateral Trust Gold Bonds, due January 1st, 1930			1,500,000 00
Investments held by Trustee of First Mortgage Bonds			100,971 10
Loans to Wayagamack News Limited:			
Secured by $1,500,000 6½% 15-year Second or General Mortgage Bonds, due 1940		$ 1,350,000 00	
Additional Loans		331,447 50	
			1,681,447 50
Fixed Assets:			
Buildings, Plants, Machinery, Property, Real Estate, Limits (Less allowance for Depletion) and prepaid Stumpage			12,421,820 54
			$20,910,914 12

Signed on behalf of the Board:

Jas. W. Pyke
Hugh Mackay } *Directors.*

WAYAGAMACK PULP AND PAPER COMPANY, LIMITED

Balance Sheet as at 30th November, 1928

LIABILITIES

Current Liabilities:				
Accounts Payable, Accrued Charges, and Provision for Income Tax			$ 1,375,001 54	
Accrued Interest on Bonds			121,739 00	
Accrued Interest on New Stock Payments			33,875 56	
Dividend No. 15, payable December 1st, 1928			75,000 00	
				$ 1,605,616 10
Bonds, 6% 40-Year First Mortgage, Due 1951:				
Authorized and Issued			$ 5,000,000 00	
Less: Bonds Redeemed and Bonds Cancelled for Sinking Fund			944,300 00	
				4,035,700 00
Bonds, 6½% 5-Year General Mortgage and Collateral Trust Gold Bonds, Due 1930:				
Authorized and Issued				1,500,000 00
Capital:				
Authorized: 250,000 Shares without nominal or par value.				
Issued and Fully Paid: 100,000 Shares			$ 5,000,000 00	
Payments Received on Account of 33,333 Shares			1,572,315 00	
				6,572,315 00
Reserve for Depreciation and Sinking Fund				2,615,314 70
General Reserve				1,100,000 00
Profit and Loss Account:				
Balance as at 30th November, 1927			$ 2,990,589 13	
Add: Profit from operations after providing for Income Tax		$ 1,330,400 97		
Deduct: Bond Interest	$ 344,870 00			
Depreciation	160,000 00			
Depletion of Limits	79,053 98			
		583,923 98		
		746,476 99		
Add: Profit from sales of Capital Assets		624,902 20		
		1,371,379 19		
Deduct:				
Transferred to General Reserve	$ 600,000 00			
Dividends No. 12 to No. 15	300,000 00			
		$ 900,000 00		
			471,379 19	
				3,461,968 32
				$20,910,914 12

Note.—Wayagamack Pulp & Paper Co., Ltd., have guaranteed the outstanding £392,300 5% Guaranteed Debenture Stock of Wayagamack News, Limited, and have undertaken to lease and operate the plant of Wayagamack News, Limited, for a period of fifteen years from January, 1926.

Contingent Liabilities $150,000 00

Montreal, 12th December, 1928. Verified as per our Report of this date.

RIDDELL, STEAD, GRAHAM & HUTCHISON, C.A.
Auditors.

80 St. Francois Xavier St.,
Montreal, 12th December, 1928.

The President and Shareholders,

WAYAGAMACK PULP & PAPER COMPANY, LIMITED

We have examined and audited the books and accounts of the Wayagamack Pulp & Paper Company, Limited, for the year ended 30th November, 1928, and report as follows:

The inventories of pulpwood and logs, stores, coal, pulp and paper on hand have been valued at not more than cost and have been certified correct as to quantities and prices by responsible officials of the company.

We certify that we have obtained all the information and explanations we have required, and that, in our opinion, the accompanying balance sheet as at 30th November, 1928, is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs, according to the best of our information and the explanations given to us, and as shown by the books of the company.

RIDDELL, STEAD, GRAHAM & HUTCHISON,
Chartered Accountants,
Auditors.

EXHIBIT 55

ST. MAURICE VALLEY CORPORATION

SECOND ANNUAL REPORT

TO THE SHAREHOLDERS:—

I have pleasure on behalf of your Directors, to submit the Second Annual Report of the Corporation, covering the year ended December 31, 1927, with Consolidated Balance Sheet and Profit and Loss Account as certified by Messrs. P. S. Ross & Sons, Chartered Accountants, Montreal. The consolidation embodies your Corporation, Belgo Canadian Paper Company Limited and Canada Paper Company. The operating profits were $4,689,673.58, and after deduction of Bond, Bank and other Interest of $1,397,708.69, the balance was $3,291,964.89. From this there has been appropriated for Depreciation and Depletion Reserves $1,243,384.52; paid for Preferred Dividends of the various Corporations, and Common Dividend to Belgo Canadian Paper Company Limited Minority Stockholders $1,030,815.09; leaving a surplus available for the year of $1,017,765.28.

Production for the period was as follows:—

	Tons
Newsprint..	226,203
Kraft Pulp..	18,283
Wrappers..	6,489
Book and Writing Papers..	3,900

in addition to which other specialties were made at the Mills of the Canada Paper Company.

The construction work carried out in 1926 at the Shawinigan Falls Mill was permanently financed during the year by the issue of 5½ per cent Bonds and 7 per cent Preferred Stock.

During the year your Corporation added to its Timber Reserves by the purchase of Les Escoumains Limits, estimated to contain 1,500,000 cords of pulpwood.

Since the closing of the fiscal period the holders of the no par value Common shares of your Corporation have been offered an exchange of securities by Canada Power & Paper Corporation on the basis of two and one-half (2½) shares of the no par value Common shares of the new Corporation for each share of your Corporation. The offer is earnestly recommended by your Directors.

It is with pleasure that your Directors desire to record their appreciation of the faithful and efficient services rendered by the staff and employees of all departments throughout the year.

Respectfully submitted on behalf of the Directors.

H. S. HOLT,
President.

MONTREAL, February 21, 1928.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For Year Ended December 31st, 1927

Gross Profit from Operations			$ 4,689,673 58
Deduct:—			
Bond, Bank and other Interest:			
St. Maurice Valley Corporation		$ 717,353 69	
Belgo Canadian Paper Company, Limited		560,355 00	
Canada Paper Company		120,000 00	
			1,397,708 69
			$ 3,291,964 89
Whereof:			
Depreciation and Depletion Reserves		$ 1,243,384 52	
Dividends Paid:			
Preferred:			
St. Maurice Valley Corporation 7%	$ 591,098 09		
Belgo Canadian Paper Company Limited, 7%	350,000 00		
Canada Paper Company, 7%	87,500 00		
		1,028,598 09	
Common:			
Belgo Canadian Paper Company Limited, Minority Stockholders		2,217 00	
Surplus (subject to Federal Income Tax)		1,017,765 28	
			$ 3,291,964 89

ST. MAURICE VALLEY CORPORATION

Consolidated Balance Sheet, December 31st, 1927

ASSETS

FIXED:—		
Real Estate, Plant and Machinery and Timber Limits, etc., and 20,000 Common Shares no par value of Anticosti Corporation		$45,915,719 53
CURRENT:—		
Cash	$ 1,284,013 00	
Accounts and Bills Receivable	1,809,067 88	
Investments	438,442 31	
Inventories	7,832,889 93	
Advance Stumpage	26,000 00	
		11,390,413 12
Montreal Trust Company—Employees Stock		679,920 00
Deferred Charges		361,775 29

LIABILITIES

FIXED:—			
7% Cumulative Preference Shares—$100 par.			
St. Maurice Valley Corporation (including $5.00 par) Authorized	$10,000,000 00		
Issued		$10,000,000 00	
Belgo Canadian Paper Company Limited Authorized	5,000,000 00		
Issued		5,000,000 00	
Canada Paper Company Authorized	3,000 000 00		
Issued		1,250,000 00	
			$16,250,000 00
First mortgage Sinking Fund Gold Bonds			
St. Maurice Valley Corporation. Authorized. $15,000,000 00			
Issued:			
Series A, due 1945-6%	9,999,833 00		
Less: Redeemed	414,103,33		
		9,585,729 67	
Series, B, due 1957—5½%		2,000,000 00	
Belgo Canadian Paper Company Limited—6% due 1943. Authorized. $10,000,000 00			
Issued	10,000 000 00		
Less: Redeemed	776,000 00		
		9,224,000 00	
Canada Paper Company 6%—due 1945—Authorized $5,000,000 00			
Issued	2,000,000 00		
Less: Redeemed	82,400 00		
		1,917,600 00	
			22,727,329 67
CURRENT:			
Accounts and Bills Payable		1,946,725 11	
Accrued Bond Interests		362,373 30	
Accrued Deferred Dividends		189,000 00	
Accrued Common Dividend—Belgo Minority		504 00	
			2,498,602 41

ST. MAURICE VALLEY CORPORATION

Consolidated Balance Sheet, December 31st, 1927—*Concluded*

ASSETS		LIABILITIES		
		RESERVES:		
		Depreciation, Depletion and Contingent........	2,581,057 58	
		Belgo Canadian Paper Company Limited Common Stock not owned by Corporation.	33,600 00	2,614,657 58
		Montreal Trust Company Employees Stock Loan		679,920 00
		CAPITAL AND SURPLUS:—		
Approved on behalf of the Board. (Signed)		Represented by 500,000 shares no par value Common Stock of which 160,000 shares are issued and fully paid up	11,529,685 15	
H. S. HOLT, A. CROSS } Directors.		Profit and Loss Account.....	2,047,633 13	13,577,318 28
	$58,347,827 94			$58,347,827 94

TO THE SHAREHOLDERS OF ST. MAURICE VALLEY CORPORATION,

Gentlemen:

AUDITORS' CERTIFICATE

We have compared the foregoing Balance Sheet as at December 31st, 1927, with the books of account and records of the St. Maurice Valley Corporation, together with the Belgo Canadian Paper Company Limited, and Canada Paper Company (Head Office) for the year ended December 31st, 1927, and have obtained all the information and explanations required by us.

The Inventories have been certified to by your officials, and we have accepted same as a basis for incorporation in the statements as at December 31st, 1927. Messrs. Fred Page, Higgins & Co., C. A., Toronto, have certified to the correctness of the statements of the Canada Paper Co., Kilgour Division.

Subject to the foregoing, we certify that, in our opinion, the Consolidated Balance Sheet and relative Profit and Loss Account as at December 31st, 1927, exhibit a true and correct view of the state of affairs of the combined companies as at that date, according to the best of our information and explanations given to us and as shown by the books of account and records examined by us.

MONTREAL, February 21st, 1928.

(Signed) P. S. ROSS & SONS, Chartered Accountants.

ST. MAURICE VALLEY CORPORATION

Report for the year ended December 31, 1927.

Officers: M. B. Wallace, Chairman of the Board; Sir Herbert S. Holt, President; George M. McKee, Vice-President and Managing Director; A. Cross, Vice-President; J. H. Gundy, Vice-President; T. T. Waller, Vice-President; G. Wilfred Hodgson, Secretary and Treasurer; R. W. Louthood, Assistant Secretary-Treasurer; J. W. Hodgson, Assistant Secretary-Treasurer.

Directors: A. Cross, J. H. Gundy, G. H. Montgomery, K.C., C. B. McNaught, T. T. Waller, Francois Faure, Sir Herbert S. Holt, George M. McKee, M. B. Wallace, T. A. Wark.

Exhibit No. 56

LAURENTIDE COMPANY LIMITED

Annual Report for the Year ended June 30th, 1927

To the Shareholders:

The profits for the year ended June 30th, 1927, were $2,776,067.25. After deducting interest and other charges amounting to $313,351.95, and reserves for taxes, depreciation and depletion, amounting to $715,225.02, there is a net profit of $1,747,490.28.

The Mills have operated during the year with a curtailed production, and the contract price for newsprint has been lower.

The Company has acquired full ownership of the Menjobagues Lumber Company, Limited, and purchased the Perthius Seigniory, thus materially increasing its timber resources.

The Company has also completed a new steam plant for the use of pulverized fuel which is now operating with reduced steam costs.

For the Directors,

GEORGE CHAHOON, Jr,,
President.

Montreal, August 8th, 1927.

LAURENTIDE COMPANY LIMITED

Profit and Loss Account

Year ended June 30th, 1927

Profits from Newsprint and Cardboard		$ 2,317,025 31
Miscellaneous Profits		78,348 94
Income from Investments		380,693 00
		$ 2,776,067 25
Deduct:—		
Interest and Other Charges	$ 313,351 95	
Taxes, Depreciation and Depletion	715,225 02	
		1,028,576 97
Profits for Year		$ 1,747,490 28
To Dividends as follows:—		
October 1st, 1926	$ 432,000 00	
January 2nd, 1927	432,000 00	
April 3rd, 1927	432,000 00	
July 2nd, 1927	432,000 00	
		1,728,000 00
Carried into Surplus—Balance		$ 19,490 28

Balance Sheet as at June 30th, 1927

Assets

Fixed:—		
Mills, Buildings, Plant and Machinery, Timber Limits and Real Estate	$28,633,288 24	
Less:—		
Reserve for Depreciation and Depletion	4,387,673 45	
	24,245,614 79	
Investment in The Menjobagues Lumber Company, Limited (fully owned Subsidiary)	1,051,922 08	
		$25,297,536 87
Current:—		
Investments	$ 4,654,835 72	
Cash on Hand	30,785 68	
Accounts and Bills Receivable	730,611 92	
Logs and Logging Supplies	3,164,829 78	
Mill Supplies	607,526 24	
Miscellaneous Merchandise	91,354 98	
		9,279,944 32
Insurance Premiums Unexpired		76,145 33
Deferred Charges to Operations		124,363 68
		$34,777,990 20

Liabilities

Common Stock:—		
Authorized	$35,000,000 00	
Less:—		
Unissued	6,200,000 00	
		$28,800,000 00
Current:—		
Common Stock Dividend due July 2nd	$ 432,000 00	
Accrued Wages	60,836 47	
Bank of Montreal	1,210,754 70	
Accounts Payable	1,219,737 63	
Bills Payable	55,875 00	
Unpaid Dividends	11,334 50	
Reserve for Income Tax	234,625 85	
		3,225,164 15
Contingent and Miscellaneous Reserves		265,371 06
Surplus as at June 30th, 1926	$ 2,467,964 71	
Surplus for year	19,490 28	
		2,487,454 99
		$34,777,990 20

Indirect Liability for Customers' Paper under Discount, $29,708.99.
Contingent Liability for Guarantee of Bonds of Laurentide Power Company, Limited, $1,510,000.00.

Approved on behalf of the Board,

Edwin Hanson,
Geo. H. Montgomery, } Directors.

Auditors' Certificate

We have examined the books and accounts of Laurentide Company, Limited, for the fiscal year ended June 30th, 1927, and have received all the information and explanations we have required. We certify that, in our opinion, the foregoing Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of Laurentide Company, Limited, according to the best of our information, the explanations given to us and as shown by the books of the Company.

Sharp, Milne & Company,
Chartered Accountants.

Montreal, August 6th, 1927.

LAURENTIDE COMPANY LIMITED

Annual Report for the Year ended June 30th, 1927

Officers: George Chahoon, Jr., President; Charles R. Hosmer, Vice-President; Louis Armstrong, Treasurer; William F. Robinson, Secretary; F. E. McNally, Asst. Secretary.

Directors: George Chahoon, Jr., Sir Vincent Meredith, Bart., F. A. Sabbaton, Geo. H. Montgomery, K.C., Charles R. Hosmer, Edwin Hanson, Commander J. K. L. Ross, Sir Lomer Gouin, K.C.M.G., J. M. McConnell.

Exhibit 57

BELGO CANADIAN PAPER COMPANY LIMITED

Annual Report for the Twenty-one Month Period April 1st, 1923, to December 31st, 1924

To the Shareholders:

I beg to present the first annual report of your Company covering twenty-one months of operation, from April 1st, 1923, to December 31st, 1924. The profits for the period were $4,173,285.85, which, after making reserves for Depreciation and Depletion, and Taxes amounting to $1,088,886.94, Bond Interest of $742,500 and making a reserve for Sinking Fund of $240,000, leaves the sum of $2,101,898.91. Dividends of 7 per cent on the Preference Stock were paid amounting to $420,000 and on the Common Stock for the final quarter at the rate of 6 per cent per annum amounting to $127,500. This leaves at the credit of Surplus Account $1,554,398.91.

The Company's Fixed Assets were increased during the period by $1,961,-625.52, the Timber Resources being added to and the Mill Capacity being increased to 375 tons.

Respectfully submitted,

H. Biermans, *President.*

BELGO CANADIAN PAPER COMPANY, LIMITED

Balance Sheet December 31st, 1924

ASSETS

Fixed—		
Property, Real Estate, Plant— Machinery and Timber Limits		$20,192,978 11
Current—		
Cash on hand and in Banks	$ 145,873 05	
Accounts and Bills Receivable	1,123,916 21	
Investments	405,452 25	
Pulpwood and Logging Supplies	2,984,575 06	
Mill Supplies and Finished Products	480,382 83	
		$ 5,140,199 40
Deferred Charges to Operations		127,159 95
		$25,460,337 46

CERTIFICATE

We have received all the information and explanations we have required and certify that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of Belgo Canadian Paper Company, Limited as at December 31st, 1924, according to the best of our information, the explanations given us and as shown by the books of the Company.

SHARP, MILNE & COMPANY.
Chartered Accountants.

Montreal, February 23rd, 1925.

BELGO CANADIAN PAPER COMPANY, LIMITED

Balance Sheet, December 31st, 1924

LIABILITIES

Capital Stock—			
Preferred 7% Cumulative		$ 5,000,000 00	
Less unissued		1,000,000 00	
		$ 4,000,000 00	
Common			
Authorized and issued		8,500,000 00	
			$12,500,000 00
Bonds—6% First Mortgage Twenty Year—			
Sinking Fund Gold Bonds—			
Authorized	$10,000,000 00		
Issued		$ 8,000,000 00	
Less—Redeemed		165,000 00	
			7,835,000 00
Current—			
Accounts and Bills Payable		$ 871,587 02	
Belgian Industrial Company Limited		591,416 70	
Accrued Wages		43,953 34	
Bond Interest payable January 2nd 1925		240,000 00	
Preferred Dividend payable January 2nd 1925		70,000 00	
Common Dividend payable January 10th, 1925		127,500 00	
			1,944,457 06
Bills payable for Limites purchased			133,333 33
Reserves—			
Depreciation and Depletion		$ 864,689 24	
Contingent		388,458 92	
Sinking Fund		240,000 00	
			1,493,148 16
Surplus			1,554,398 91
			$25,460,337 46

Approved on behalf of the Board
F. Faure,
Director.

J. W. Ross,
Director.

BELGO CANADIAN PAPER COMPANY, LIMITED

PROFIT AND LOSS ACCOUNT

April 1st 1923 to December 31st, 1924

Profits from Newsprint, Sulphite and Groundwood			$ 4,005,210 33
Profits from Miscellaneous			168,075 52
			$ 4,173,285 85
DEDUCTIONS:			
Reserve for Depreciation, Depletion and Taxes		$ 1,088,886 94	
Bond Interest		742,500 00	
Sinking Fund		240,000 00	
			2,071,386 94
			2,101,898 91
DIVIDENDS ON PREFERRED STOCK:—			
October 15th, 1923	$ 70,000 00		
January 2nd, 1924	70,000 00		
April 1st, 1924	70,000 00		
July 2nd, 1924	70,000 00		
October 1st, 1924	70,000 00		
January 2nd, 1925	70,000 00		
		$ 420,000 00	
DIVIDEND ON COMMON STOCK:—			
January 10th, 1925		127,500 00	
			547,500 00
Surplus			$ 1,554,398 91

EXHIBIT 58 (*a*)

MONTREAL TRUST COMPANY

EXECUTORS AND TRUSTEES

MONTREAL, October 7th, 1929.

To the Holders of Common Shares of
Port Alfred Pulp & Paper Corporation:

Further to our letter to you of September 26th, 1929, in which, at the request of Canada Power & Paper Corporation, we submitted an offer of Exchange to you on their behalf, please be advised that for each certificate for common shares of Port Alfred Pulp & Paper Corporation so deposited a Deposit Receipt of the undersigned negotiable in form will be immediately issued.

Yours truly,

MONTREAL TRUST COMPANY,

F. G. DONALDSON,
General Manager.

Exhibit 58 (*b*)

MONTREAL TRUST COMPANY

Executors and Trustees

Montreal, September 26th, 1929.

To the Holders of Common Shares of
Port Alfred Pulp & Paper Corporation:

Pursuant to the letter addressed to you by Geo. M. McKee, Esq., President of Port Alfred Pulp & Paper Corporation under date of September 24th, 1929, reporting the decision of Canada Power & Paper Corporation to make an offer for the outstanding Common shares of your Corporation, which offer has been considered and recommended for acceptance by the Directors of your Corporation, we have been requested by Canada Power & Paper Corporation to submit on its behalf to each holder of Common shares of Port Alfred Pulp & Paper Corporation, the following offer:—

In exchange for each Common share of Port Alfred Pulp & Paper Corporation, the certificate for which is deposited for transfer, duly endorsed, as hereinafter provided, to give:—

Two and three quarters ($2\frac{3}{4}$) fully paid shares without nominal or par value of the capital stock of Canada Power & Paper Corporation.

This offer is made subject to the following terms and conditions:—

(1) Acceptance can be made by you in respect of Common shares of Port Alfred Pulp & Paper Corporation only by the deposit within the delay mentioned below with the undersigned, Montreal Trust Company, at Montreal or Toronto, Canada, of the appropriate stock certificate or certificates for such shares duly endorsed in blank for transfer.

(2) This offer may be accepted by you until, but not after, the 9th day of November, 1929, and no deposit of certificates for Common shares of Port Alfred Pulp & Paper Corporation will be accepted by us after that date, the whole, however, subject to the right of Canada Power & Paper Corporation, in its discretion, to extend the delay for acceptance in any individual case or cases.

(3) Against your deposit as above provided of certificates for Common shares of Port Arthur Pulp & Paper Corporation, we shall deliver to you as soon as possible a certificate or certificates for fully paid and non-assessable shares without nominal or par value of the capital stock of Canada Power & Paper Corporation equal in number to two and three-quarters ($2\frac{3}{4}$) times the number of Common shares of Port Alfred Pulp & Paper Corporation represented by the stock certificates so deposited, exclusive, however, of any odd quarter and/or half shares to which you may be entitled, in respect of which a special bearer certificate or certificates of the undersigned, Montreal Trust Company, will concurrently be delivered. Each such special certificate will provide that, upon presentation and surrender thereof to the undersigned, accompanied by one or more similar certificates representing sufficient fractions to make up one full share, the bearer will receive a stock certificate for one fully paid share of Canada Power & Paper Corporation.

(4) Shareholders who wish to forward by mail their certificates for Common shares of Port Alfred Pulp & Paper Corporation are advised to use the registered post for their own protection. If so requested by a depositor, the undersigned will forward to such depositor, as soon as available, by registered letter the certificates referred to in Clause (3) above but in every such case delivery of such certificates shall be deemed to have been made to the depositor concerned as soon as such letter has been mailed.

Yours truly,

MONTREAL TRUST COMPANY,

F. G. Donaldson,

General Manager.

EXHIBIT 58 (*c*)

FORM OF SHAREHOLDER'S LETTER

, 1929.

To

MONTREAL TRUST COMPANY, Montreal, Canada.

Toronto,

Dear Sirs:—

In evidence of acceptance of the offer made by you on behalf of Canada Power & Paper Corporation in your letter of September 26th, 1929, I enclose herewith Certificate(s) as shown below, duly endorsed in blank for transfer, for..........................common shares of Port Alfred Pulp & Paper Corporation.

Will you kindly forward by registered mail, as soon as available, the certificate(s) to which I am entitled.

Signature ....
Address ....

Certificate Numbers	Number of Shares
....	....
....	....
....	....

NOTE:—This form is provided for use by shareholders who desire to forward their stock certificates by mail.

In any case where a stock certificate has been endorsed by attorney, it must be accompanied by the Power of Attorney, under which such attorney acts.

The signature of any female shareholder should be accompanied by the notation "widow," "wife of   " or "spinster" as the case may be, and, in the case of a married woman whose matrimonial domicile is in the Province of Quebec or in France, her husband must sign the endorsement under the words "To authorize my said wife" or words to similar effect.

Stock certificates in the name of a deceased person must be endorsed by whoever represents the Estate of the deceased and should be accompanied by a certified copy of the Will of the deceased and of Probate (or an authentic copy of the Will, if executed in Quebec before a notary) or by a certified copy of the Letters of Administration and by the appropriate Succession Duties Certificate of the Province of Quebec and Certificate of Death. If these documents have previously been filed with us as Transfer Agent of Port Alfred Pulp & Paper Corporation it will not be necessary to supply another set but explicit particulars of the time when and circumstances under which these were filed should be supplied so that we may locate them and satisfy ourselves as to their sufficiency. Executors or other legal representatives of an Estate without power of sale will require to obtain appropriate authorization to make this exchange and to submit evidence to that effect.

Exhibit 58 (*d*)

Address all Communications to the Corporation

PORT ALFRED PULP & PAPER CORPORATION

P.O. Box 369, Montreal, P.Q., Canada

Head Office:
Room 224, Canada Cement Company Bldg.
Montreal P.Q.

Mills at Port Alfred, P.Q.

To the Holders of Common Shares of
Port Alfred Pulp & Paper Corporation.

An offer is being made by Canada Power & Paper Corporation for the whole of the outstanding common shares of your Corporation on the basis of two and three-quarters ($2\frac{3}{4}$) fully paid shares of Canada Power & Paper Corporation for each common share of Port Alfred Pulp & Paper Corporation.

Concurrent with this offer, Canada Power & Paper Corporation is also making an offer to acquire the whole of the outstanding shares of Wayagamack Pulp & Paper Company, Limited, on the basis of Fifty dollars ($50.00) principal amount of $5\frac{1}{2}$% Collateral Trust Sinking Fund Gold Debentures, due 1958, and one and one-half ($1\frac{1}{2}$) fully paid shares of Canada Power & Paper Corporation for each share of Wayagamack Pulp & Paper Company, Limited.

The acceptance of these offers by holders of a majority of the outstanding shares for which offers are being made will result in bringing under unified control and operation the mills operated by Canada Power & Paper Corporation at Grand'Mere, Shawinigan Falls and Cap de la Madeleine, by Port Alfred Pulp & Paper Corporation at Port Alfred and by Wayagamack Pulp & Paper Company, Limited, at Three Rivers, with a combined daily capacity for sale of paper and allied products in excess of 2,400 tons.

Your Directors consider that, by combining the operations of the properties of the three companies involved, the position of each will be materially strengthened.

Full particulars of the procedure to be followed by Shareholders in connection with the offer will be mailed to you at the earliest possible moment.

Holders of a majority of the outstanding common shares of your Corporation have declared their intention of accepting this offer and, after mature consideration, your Directors are satisfied that the offer is greatly in the interests of the holders of common shares of Port Alfred Pulp & Paper Corporation and unhesitatingly recommend it for your acceptance.

By order of the Board

Geo. M. McKee, *President.*

Montreal, September 24th, 1929.

EXHIBIT 59 (*a*)

MONTREAL TRUST COMPANY

EXECUTORS AND TRUSTEES

MONTREAL, October 7th, 1929.

To the Shareholders of
Wayagamack Pulp & Paper Company, Limited:

Further to our letter to you of September 26th, 1929, in which, at the request of Canada Power & Paper Corporation, we submitted an offer of exchange to you on their behalf, please be advised that for each certificate for shares of Wayagamack Pulp & Paper Company, Limited, so deposited a Deposit Receipt of the undersigned negotiable in form will be immediately issued.

Yours truly,

MONTREAL TRUST COMPANY,
F. G. DONALDSON, *General Manager.*

EXHIBIT 59 (*b*)

MONTREAL TRUST COMPANY

EXECUTORS AND TRUSTEES

MONTREAL, September 26, 1929.

To the Shareholders of
Wayagamack Pulp & Paper Company, Limited.

Pursuant to the letter addressed to you by C. R. Whitehead, Esq., President of Wayagamack Pulp & Paper Company, Limited, under date of September 24, 1929, reporting the decision of Canada Power & Paper Corporation to make an offer for the outstanding shares of your Company, which offer has been considered and recommended for acceptance by the Directors of your Company, we have been requested by Canada Power & Paper Corporation to submit on its behalf to each shareholder of Wayagamack Pulp & Paper Company, Limited, the following offer:—

In exchange for shares of Wayagamack Pulp & Paper Company, Limited, the certificates for which are deposited for transfer, duly endorsed, as hereinafter provided, to give Debentures and shares of Canada Power & Paper Corporation on the basis of:—

(*a*) One and one-half ($1\frac{1}{2}$) fully paid shares without nominal or par value; and

(*b*) $50, principal amount of $5\frac{1}{2}$ per cent Collateral Trust Sinking Fund Gold Debentures, Wayagamack Series (dated and bearing interest from September 1, 1929, and maturing January 1, 1958);

for each share of Wayagamack Pulp & Paper Company, Limited.

This offer is made subject to the following terms and conditions:—

(1) Acceptance can be made by you in respect of shares of Wayagamack Pulp & Paper Company, Limited, only by the deposit within the delay mentioned below with the undersigned, Montreal Trust Company, at Montreal or Toronto, Canada, of the appropriate stock certificate or certificates for such shares duly endorsed in blank for transfer.

(2) This offer may be accepted by you until, but not after, the ninth day of November, 1929, and no deposit of certificates for shares of Wayagamack Pulp & Paper Company, Limited, will be accepted by us after that date, the whole, however, subject to the right of Canada Power & Paper Corporation, in its discretion, to extend the delay for acceptance in any individual case or cases.

(3) Against your deposit as above provided of certificates for shares of Wayagamack Pulp & Paper Company, Limited, we shall deliver to you as soon as possible:—

(*a*) A certificate or certificates for fully paid and non-assessable shares without nominal or par value of the capital stock of Canada Power & Paper Corporation equal in number to one and one-half ($1\frac{1}{2}$) times the number of shares of Wayagamack Pulp & Paper Company, Limited, represented by the stock certificates so deposited, exclusive, however, of any odd half share to which you may be entitled, in respect of which a special bearer certificate of the undersigned, Montreal Trust Company, will concurrently be delivered. Each such special certificate will provide that, upon presentation and surrender thereof to the undersigned, accompanied by a similar certificate, the bearer will receive a stock certificate for one fully paid share of Canada Power & Paper Corporation; and

(*b*) An undertaking of Canada Power & Paper Corporation, in the form of a printed certificate of certificates, to deliver, as soon as available and upon presentation and surrender of such certificate or certificates to the undersigned, Montreal Trust Company, at Montreal or Toronto, Canada, such principal amount of coupon or fully registered $5\frac{1}{2}$ per cent Collateral Trust Sinking Fund Gold Debentures, Wayagamack Series (dated and bearing interest from September 1, 1929, maturing January 1, 1958) of Canada Power & Paper Corporation in temporary or definitive form as you may be entitled to receive under the terms of this offer, exclusive, however, of any odd \$50, principal amount of Debentures to which you may be entitled, for which a special bearer certificate of the undersigned will be issued as hereinafter specified. Such certificate or certificates of Canada Power & Paper Corporation will be fully registered and transferable only on books to be maintained by the undersigned, Montreal Trust Company, for that purpose at its offices in the Cities of Montreal and Toronto, Canada.

It should be observed that, inasmuch as no Debentures will be issued for any denomination less than \$100, the holder's rights in respect of an odd \$50 principal amount of Debentures will, upon the surrender of the appropriate certificate of undertaking of Canada Power & Paper Corporation, be evidenced by the above-mentioned special certificate of the undersigned which will provide that, upon its presentation and surrender to the undersigned, accompanied by a similar certificate, the bearer will receive \$100 principal amount of said $5\frac{1}{2}$ per cent Collateral Trust Sinking Fund Gold Debentures, Wayagamack Series, in temporary or definitive, bearer or fully registered form.

(4) Shareholders who wish to forward by mail their certificates for shares of Wayagamack Pulp & Paper Company, Limited, are advised to use the registered post for their own protection. If so requested by a depositor, the undersigned will forward to such depositor, as soon as available, by registered letter the certificates referred to in the Clause (3) above but in every such case delivery of such certificates shall be deemed to have been made to the depositor concerned as soon as such letter has been mailed.

Yours truly,

MONTREAL TRUST COMPANY,
F. G. DONALDSON,
General Manager.

Exhibit 59 (*c*)

FORM OF SHAREHOLDER'S LETTER

, 1929

To Montreal Trust Company, Montreal, Toronto, Canada.

Dear Sirs:—In evidence of acceptance of the offer made by you on behalf of Canada Power & Paper Corporation in your letter of September 26th, 1929, I enclose herewith Certificate(s) as shown below, duly endorsed in blank for transfer, for..
Shares of Wayagamack Pulp & Paper Company, Limited.

Will you kindly forward by registered mail, as soon as available, the certificate(s) to which I am entitled.

Signature..
Address..

Certificate Numbers	Number of Shares
....	....
....	....
....	....

Note:—This form is provided for use by shareholders who desire to forward their stock certificates by mail.

In any case where a stock certificate has been endorsed by attorney, it must be accompanied by the Power of Attorney, under which such attorney acts.

The signature of any female shareholder should be accompanied by the notation "widow," "wife of " or "spinster" as the case may be, and, in the case of a married woman whose matrimonial domicile is in the Province of Quebec or in France, her husband must sign the endorsement under the words "To authorize my said wife" or words to similar effect.

Stock certificates in the name of a deceased person must be endorsed by whoever represents the Estate of the deceased and should be accompanied by a certified copy of the Will of the deceased and of Probate (or an authentic copy of the Will, if executed in Quebec before a notary) or by a certified copy of the Letters of Administration and by the appropriate Succession Duties Certificate of the Province of Quebec and Certificate of Death. If these documents have previously been filed with the Transfer Agent of Wayagamack Pulp & Paper Company, Limited, it will not be necessary to supply another set but explicit particulars of the time when and circumstances under which these were filed should be supplied so that we may locate them and satisfy ourselves as to their sufficiency. Executors or other legal representatives of an Estate without power of sale will require to obtain appropriate authorization to make this exchange and to submit evidence to that effect.

Exhibit 59 (*d*)

WAYAGAMACK PULP AND PAPER COMPANY LIMITED

Three Rivers, Que.

September 24th, 1929.

To the Shareholders of Wayagamack Pulp & Paper Company, Limited.

An offer is being made by Canada Power & Paper Corporation for the whole of the outstanding shares of your Company on the basis of Fifty Dollars ($50.00) principal amount of $5\frac{1}{2}$ per cent Collateral Trust Sinking Fund Gold Debentures, due 1958, and one and one-half ($1\frac{1}{2}$) fully paid shares of Canada Power & Paper Corporation for each share of Wayagamack Pulp & Paper Company, Limited.

Concurrent with this offer, Canada Power & Paper Corporation is also making an offer, to acquire the whole of the outstanding common shares of Port Alfred Pulp & Paper Corporation on the basis of two and three-quarters ($2\frac{3}{4}$) fully paid shares of Canada Power & Paper Corporation for each common share of Port Alfred Pulp & Paper Corporation.

The acceptance of these offers by holders of a majority of the outstanding shares for which offers are being made will result in bringing under unified control and operation the mills operated by Canada Power & Paper Corporation at Grand 'Mere, Shawinigan Falls and Cap de la Madeleine, by Wayagamack Pulp & Paper Company, Limited, at Three Rivers and by Port Alfred Pulp & Paper Corporation at Port Alfred, with a combined daily capacity for sale of paper and allied products in excess of 2,400 tons.

Your Directors consider that, by combining the operations of the properties of the three companies involved, the position of each will be materially strengthened.

Full particulars of the procedure to be followed by Shareholders in connection with the offer will be mailed to you at the earliest possible moment.

Holders of a majority of the outstanding shares of your Company have declared their intention of accepting this offer and, after mature consideration, your Directors are satisfied that the offer is greatly in the interests of the shareholders of Wayagamack Pulp & Paper Company, Limited, and unhesitatingly recommend it for your acceptance.

By order of the Board,

C. R. WHITEHEAD, *President.*

EXHIBIT 60 (*a*)

Address all Communications
to the Company

Cable Address
"Royaltrust"

THE ROYAL TRUST COMPANY

EXECUTORS AND TRUSTEES

MONTREAL, January 17th, 1928.

To the Holders of Common Shares of St. Maurice Valley Corporation:

Pursuant to the letter addressed to you by Sir Herbert S. Holt, President of St. Maurice Valley Corporation, under date of January 11th, 1928, which set forth a plan, approved and recommended by the Directors of your Company and of Laurentide Company, Limited, for the amalgamation of the Common Stock interests of these two Companies, we have been requested by Canada Power & Paper Corporation to submit on its behalf to each holder of common shares of St. Maurice Valley Corporation the following offer:

In exchange for each common share of St. Maurice Valley Corporation deposited for transfer, duly endorsed:—

Two and one-half fully paid shares without nominal or par value of the capital stock of Canada Power & Paper Corporation.

This offer is made subject to the following terms and conditions:—

(1) Acceptance of this offer can be made by you in respect of common shares of St. Maurice Valley Corporation only by the deposit within the delay mentioned below with the undersigned, The Royal Trust Company, at Montreal or Toronto, Canada, of the appropriate certificate or certificates for such common shares duly endorsed in blank for transfer;

(2) This offer may be accepted by you until, but not after, the 29th day of February, 1928, and no deposit of certificates for common shares of St. Maurice Valley Corporation will be accepted by us after that date, the whole, however, subject to the right of Canada Power & Paper Corporation at its discretion, to extend the time for acceptance of this offer in any individual case or cases;

(3) Against your deposit as above provided of certificates for common shares of St. Maurice Valley Corporation, we shall deliver to you as soon as possible a certificate or certificates for fully paid and non-assessable shares without nominal or par value of the capital stock of Canada Power & Paper Corporation equal in number to two and one-half times the number of common shares of St. Maurice Valley Corporation represented by the certificate so deposited, less the half share of Canada Power and Paper Corporation to which you will be entitled, if an odd number of common shares of St. Maurice Valley Corporation has been so deposited, for which half-share a special certificate of the undersigned, The Royal Trust Company, will be concurrently delivered. Each such special certificate will provide that, upon presentation and surrender thereof to the undersigned, accompanied by a similar certificate, the holder will receive a stock certificate for one fully paid and non-assessable share of Canada Power & Paper Corporation.

(4) Shareholders who wish to forward by mail their certificates for common shares of St. Maurice Valley Corporation are advised to use the registered post for their own protection. If so requested by a depositor, the undersigned will, upon such deposit being made, forward to such depositor by registered letter the certificate or certificates referred to in Clause (3) above, but in every such case delivery of such certificate or certificates shall be deemed to have been made to the depositor concerned as soon as such letter has been mailed.

Yours truly,

THE ROYAL TRUST COMPANY,
R. P. Jellett, *Assistant General Manager.*

Exhibit 60 (*b*)

FORM OF SHAREHOLDER'S LETTER

To the Royal Trust Company, Montreal, , 1928.
Toronto, Canada:

Dear Sirs,—In evidence of acceptance of the offer made by you on behalf of Canada Power & Paper Corporation in your letter of January 17th, 1928, I enclose herewith certificate (s) as shown below, duly endorsed in blank for transfer, for
Common shares of St. Maurice Valley Corporation.

Will you kindly forward by mail the certificate (s) to which I am entitled.

Signature.. .. ..
Address.. .. ..

Certificate Numbers	Number of Shares
.. ..	.. ..
.. ..	.. ..
.. ..	.. ..

Note.—This form is provided for use by shareholders who desire to forward their stock certificates by mail.

In any case where a stock certificate has been endorsed by attorney, it must be accompanied by the Power of Attorney, under which such attorney acts.

The signature of any female shareholder should be accompanied by the notation "widow," "wife of " or "spinster" as the case may be and, in the case of a married woman whose matrimonial domicile is in the Province of Quebec, her husband must sign the endorsement under the words "To authorize my said wife" or words to similar effect.

Stock certificates in the name of a deceased person must be endorsed by whoever represents the estate of the deceased and should be accompanied by a certified copy of the will of the deceased and of probate (or an authentic copy of the will, if executed in Quebec before a notary) or by a certified copy of the letters of administration and by the appropriate Succession Duties Certificate of the Province of Quebec and Declaration of Transmission.

EXHIBIT 60 (*c*)

ST. MAURICE VALLEY CORPORATION

CANADA CEMENT BUILDING, MONTREAL

January 11, 1928.

To the Shareholders of St. Maurice Valley Corporation.

At a meeting of the Board held this afternoon, your Directors, after conferring with Directors of Laurentide Company Limited, approved a plan for the amalgamation of the common stock interests of your Company and of Laurentide Company Limited.

The plan involves the exchange of Common shares of St. Maurice Valley Corporation for shares of a new Company to be incorporated under the name of Canada Power & Paper Corporation or some other suitable name and to be organized upon the following lines.

The new Company will be a Quebec corporation with its head office at Montreal. Its authorized share capital will consist of 750,000 shares without nominal or par value. Shares will be allotted and issued to holders of shares of Laurentide Company Limited on the basis of one share of the new Company's stock for each share of Laurentide Company Limited transferred to the new Company. In addition, holders of Laurentide Company Limited will be entitled to receive upon such transfer $100 principal amount of 5½ Thirty Year Sinking Fund Gold Debentures of the new Company for each share transferred.

Shareholders of St. Maurice Valley Corporation will receive two and one-half shares of the new Company's stock for each common share of St. Maurice Valley Corporation transferred to the new Company.

Upon the acquisition by the new Company of the shares of Laurentide Company Limited and St. Maurice Valley Corporation proposed to be acquired under this plan, the new Company will have 688,000 outstanding shares and outstanding debentures aggregating $28,800,000.

Full particulars of the procedure to be followed by Shareholders in connection with the exchange of shares will be mailed to you at the earliest possible moment.

This amalgamation will bring under unified control the operations of mills of the St. Maurice Valley Corporation group at Shawinigan Falls, Three Rivers and Windsor Mills and of Laurentide Company Limited at Grand'Mere.

These mills have a combined daily capacity of more than 1,400 tons of paper products, the capacity of the St. Maurice Valley Corporation group being about 1,000 tons per day and that of Laurentide Company Limited approximately 400 tons per day.

The bringing together of three large mills situated in close proximity in the valley of the St. Maurice river with contiguous limits which are peculiarly adapted to efficient and economical operation under one control is expected to produce substantial economies.

The pulpwood resources available for the operation of all these properties, including the limits in the Ottawa valley recently acquired by Laurentide-Ottawa Company, Limited, a wholly-owned subsidiary of Laurentide Company Limited, are estimated to be sufficient to provide for all present requirements and also for future expansion as conditions may warrant.

Through Laurentide Company Limited the new Company will control Laurentide Power Company, Limited, with an installed capacity of 165,000 h.p. hydroelectric energy at Grand'Mere on the St. Maurice river.

After mature consideration your Directors are satisfied that this plan is greatly in the interests of the Shareholders and unhesitatingly recommend it for your acceptance.

By order of the Board, H. S. HOLT, *President.*

Exhibit 61

$3,000,000

THE ANTICOSTI CORPORATION

7% Sinking Fund Cumulative Preference Shares

Preferred as to capital and dividends. Cumulative dividends at the rate of 7 per cent per annum accrue from date of issue and are payable quarterly December 1, March 1, June 1 and September 1 by cheque at par at any branch in Canada at The Royal Bank of Canada. Redeemable as a whole or in part at the option of the corporation on any dividend date on sixty days' notice at 105 per cent of par value, plus accrued and unpaid dividends to date of redemption.

Transfer Agents—The Royal Trust Company.

Registrar—Montreal Trust Company.

For detailed information, we refer to the within letter from Mr. George M. McKee, President of the Corporation, which has been summarized in part as follows:

THE CORPORATION

The Anticosti Corporation has been incorporated and has acquired complete ownership of the Island of Anticosti, except unimportant acreage ceded to the Government of the Dominion of Canada for lighthouse purposes. Anticosti is situated in the Gulf of St. Lawrence and embraces about 3,100 square miles, approximately one and one-half times the area of the Province of Prince Edward Island. The Island is conservatively estimated to contain 15,000,000 cords pulpwood, estimated to have a value of $15,000,000.

Through acquisition of the Island of Anticosti, the Corporation owns outright the largest and most valuable freehold reserve of pulpwood in Eastern Canada.

All of the common shares of the Corporation are owned by St. Maurice Valley Corporation, Wayagamack Pulp & Paper Company, Limited, and Port Alfred Pulp & Paper Corporation, assuring to the Corporation experienced and capable management.

SECURITY FOR PREFERENCE SHARES

An agreement has been entered into between The Anticosti Corporation and St. Maurice Valley Corporation, Wayagamack Pulp & Paper Company, Limited, and Port Alfred Pulp & Paper Corporation, as a part of the terms of which, St. Maurice Valley Corporation, Wayagmack Pulp & Paper Company, Limited, and Port Alfred Pulp & Paper Corporation jointly and severally covenant:

1. To purchase from The Anticosti Corporation a minimum total of 390,000 cords of pulpwood during each of the three years commencing November 30, 1926, and 420,000 cords during each year commencing November 30, 1929;

2. To pay to The Anticosti Corporation in each year: (*a*) a sum equal to the full amount of the Corporation's operating expenditures including depreciation; and (*b*) a minimum stumpage fee of $2.40 per cord for each cord of pulpwood purchased as long as any of the first issue of $6,000,000 Fifteen-year Firt Mortgage 6½% Sinking Fund Bonds, Series A, are outstanding, and thereafter a minimum stumpage fee of $1.40 per cord until the $3,000,000 Preference Shares now to be issued shall have been redeemed. These minimum stumpage fees are to be paid, whether or not the minimum number of cords agreed to be taken is cut or delivered.

The above stumpage payment of $2.40 per cord is equivalent to the current stumpage fee of approximately $1.40 per cord now payable to the Government of the province of Quebec on pulpwood cut on leasehold timber areas, plus the usual depletion allowance of one dollar per cord.

It is provided that, if at any time the amount of bonds or Preference Shares of the Corporation shall be increased beyond $6,000,000 principal amount of bonds or $3,000,000 par value of preference shares, the aggregate minimum amount of stumpage charges payable by St. Maurice Valley Corporation, Wayagamack Pulp & Paper Company, Limited, and Port Alfred Pulp & Paper Corporation shall be proportionately increased.

REVENUES

Under the provisions of the above agreement, during the first three years the minimum annual net revenue of The Anticosti Corporation from stumpage payments as above before dividends on these preference shares, will be $426,000, and after November 30, 1929, will be $498,000, against maximum annual dividend requirements of $210,000 on the preference shares now to be issued. These net revenues are after operating expenses, depreciation, interest and the $120,000 annual sinking fund on the first mortgage bonds of the Corporation to be outstanding upon completion of this financing.

PURCHASING COMPANIES

Combined net earnings, after operating expenses, of St. Maurice Valley Corporation, Wayagamack Pulp & Paper Company, Limited, and Port Alfred Pulp & Paper Corporation, for their last respective fiscal years, totalled $4,888,482. The operating expenses deducted before arriving at these combined net earnings include depletion at the rate of approximately one dollar per cord and the Quebec Government stumpage fee of approximately $1.40 per cord.

Combined assets of the above three companies at the end of their last respective fiscal years, totalled $71,168,720.

PREFERENCE SHARES

The authorized amount of preference shares of the Corporation is $6,000,000, of a par value of $100 per share, of which $3,000,000 par value are presently to be issued. Preference shares are cumulative but non-participating.

In case six quarterly dividends shall be in arrears and unpaid, holders of preference shares shall have one vote for each preference share held by them so long as any of such dividends continue to be in arrears and unpaid, but shall not otherwise be entitled to voting rights.

SINKING FUND

By way of Sinking Fund for the preference shares, the Corporation will on January 1, 1935, and annually thereafter, reserve or set apart, before any dividends are declared or paid on the common or other classes of shares of the Corporation, a sum equivalent to 50 per cent of the balance of the net earnings received by the Corporation from the sale of pulpwood during the next preceding fiscal year of the Corporation, after deducting interest and sinking fund payments on any bonds or debentures then outstanding and all dividends on the 7 per cent cumulative preference shares of the Corporation then outstanding.

We offer these preference shares for delivery if, as and when issued and received by us, and subject to the approval of our counsel, at:

$97.50 per share and accrued dividend, yielding 7·18 per cent.

The information contained in this circular is based upon statements and statistics on which we have relied in the purchase of these preference shares. We do not guarantee, but believe the statements herein made to be true.

(LETTERHEAD—THE ANTICOSTI CORPORATION)

Montreal, August 6, 1926.

WOOD, GUNDY & COMPANY LIMITED,
Montreal, Canada.

DEAR SIRS,—With reference to the $3,000,000 par value of 7 per cent sinking fund cumulative preference shares, to be issued by this Corporation, I have pleasure in giving you the following information:

THE CORPORATION

The Anticosti Corporation has been incorporated under the laws of the province of Quebec and has acquired complete ownership of the Island of Anticosti, except unimportant acreage ceded to the Government of the Dominion of Canada for lighthouse purposes. The Island of Anticosti is situated in the Gulf of St. Lawrence and embraces about 3,100 square miles, approximately one and one-half times the area of the province of Prince Edward Island. The Island is conservatively estimated to contain 15,000,000 cords pulpwood which, on the basis of one dollar per cord, has a value of $15,000,000.

Through acquisition of the Island of Anticosti, the Corporation will own outright the largest and most valued freehold reserve of pulpwood in Eastern Canada.

CAPITALIZATION

	Authorized	Outstanding
First Mortgage Bonds..	$10,000,000	$6,000,000
7% Cumulative Preference Shares (this issue)..	6,000,000	3,000,000
	Shares	Shares
Common Shares (of no par value)..	60,000	60,000

All of the common shares of the Corporation are owned by St. Maurice Valley Corporation, Wayagamack Pulp & Paper Company, Limited, and Port Alfred Pulp & Paper Corporation, assuring to the Corporation experienced and capable management.

SECURITY FOR PREFERENCE SHARES

An agreement has been entered into between The Anticosti Corporation and St. Maurice Valley Corporation, Wayagamack Pulp & Paper Company, Limited, and Port Alfred Pulp & Paper Corporation, as a part of the terms of which, St. Maurice Valley Corporation, Wayagamack Pulp & Paper Company, Limited, and Port Alfred Pulp & Paper Corporation jointly and severally covenant:

1. To purchase from The Anticosti Corporation a minimum total of 390,000 cords of pulpwood during each of the three years commencing November 30, 1926, and 420,000 cords during each year commencing November 30, 1929;
2. To pay to The Anticosti Corporation in each year: (*a*) a sum equal to the full amount of the Corporation's operating expenditures including depreciation; and (*b*) a minimum stumpage fee of $2.40 per cord for each cord of pulpwood purchased as long as any of the first issue of $6,000,000 Fifteen-year First Mortgage 6½% Sinking Fund Bonds, Series A, are outstanding, and thereafter a minimum stumpage fee of $1.40 per cord until the $3,000,000 preference shares now to be issued shall have been redeemed. These minimum stumpage fees are to be paid, whether or not the minimum number of cords agreed to be taken is cut or delivered.

The above stumpage payment of $2.40 per cord is equivalent to the current stumpage fee of approximately $1.40 per cord now payable to the Government of the province of Quebec on pulpwood cut on leasehold timber areas, plus the usual depletion allowance of one dollar per cord.

It is provided that, if at any time the amount of bonds or preference shares of the Corporation shall be increased beyond $6,000,000 principal amount of bonds or $3,000,000 par value of preference shares, the aggregate minimum amount of stumpage charges payable by St. Maurice Valley Corporation, Wayagamack Pulp & Paper Company, Limited, and Port Alfred Pulp & Paper Corporation shall be proportionately increased.

REVENUES

Under the provisions of the above agreement, during the first three years the minimum annual net revenue of The Anticosti Corporation from stumpage payments as above, before dividends on these preference shares, will be $426,000, and after November 30, 1929, will be $498,000, against maximum annual dividend requirements of $210,000 on the preference shares now to be issued. These net revenues are after operating expenses, depreciation, interest and the $120,000 annual sinking fund on the first mortgage bonds of the Corporation to be outstanding upon completion of this financing.

PURCHASING COMPANIES

Combined net earnings, after operating expenses, of St. Maurice Valley Corporation, Wayagamack Pulp & Paper Company, Limited, and Port Alfred Pulp & Paper Corporation, for their last respective fiscal years, totalled $4,888,482. The operating expenses deducted before arriving at these combined net earnings include depletion at the rate of approximately one dollar per cord and the Quebec Government stumpage fee of approximately $1.40 per cord.

St. Maurice Valley Corporation and its subsidiary, Belgo Canadian Paper Company, Limited, own and operate two newsprint mills, one at Three Rivers, P.Q., and the other at Shawinigan Falls, P.Q., with a combined present rated annual capacity of 195,000 tons, now being increased to a rated capacity of 255,000 tons annually. In addition, the Corporation has an annual capacity of 18,000 tons kraft pulp.

Wayagamack Pulp & Paper Company, Limited, owns or controls at Three Rivers, P.Q., mills having a rated capacity for sale of 50,000 tons newsprint paper, 30,000 tons kraft paper and 37,000 tons kraft pulp.

Port Alfred Pulp & Paper Corporation owns and operates mill properties at Port Alfred, P.Q., with present annual rated capacity of 50,000 tons sulphite pulp, now in course of extension to include newsprint production, the first newsprint machine, with rated annual capacity of 34,000 tons newsprint per annum, having commenced operations in May, 1926. With the completed plant in operation, rated annual production for sale will be 135,000 tons newsprint paper and 34,000 tons sulphite pulp.

Combined assets of the three purchasing companies, at the end of their last respective fiscal years, totalled $71,168,720. The combined rated annual capacity of the three companies is 279,000 tons newsprint, 30,000 tons kraft paper, 55,000 tons kraft pulp and 50,000 tons sulphite pulp. Upon completion of present construction plans, production will be 440,000 tons newsprint paper, 30,000 tons kraft paper, 55,000 tons kraft pulp and 34,000 tons sulphite pulp.

The annual pulpwood requirements of the three companies, upon completion of present extensions, will be approximately as follows:

	Pulpwood required	Minimum to be furnished by The Anticosti Corporation
	Cords	Cords
St. Maurice Valley Corporation	322,500	130,000
Wayagamack Pulp & Paper Company, Limited	165,000	130,000
Port Alfred Pulp & Paper Corporation	250,000	130,000
Total	737,500	390,000

It has been the policy of each of the three companies to purchase substantial quantities of pulpwood in order to conserve their respective pulpwood supplies. The agreement with The Anticosti Corporation, in conjunction with the extensive timber areas already owned or controlled by them, should ensure to these companies a practically perpetual supply of pulpwood at low cost.

THE ISLAND OF ANTICOSTI

In quantity of pulpwood, intensity of growth, rapidity of regrowth and accessibility to the pulp and paper manufacturing centres of Eastern Canada and United States, The Anticosti Corporation will occupy a position of unique advantage.

The Island of Anticosti is about 135 miles in length, with an average width of about 22 miles and an area of about 3,100 square miles. According to the estimates of competent forestry engineers the Island contains a minimum spruce and balsam pulpwood content of 15,000,000 cords, sufficient, without regrowth, for the manufacture of about 12,000,000 tons of newsprint. Rapid regrowth and natural reforestation are peculiarly favoured by soil and atmospheric conditions. Natural regrowth is estimated at about 445,000 cords per annum, a cordage in excess of the minimum of 420,000 cords to be purchased annually after November 30th, 1929, under the agreement with the three purchasing companies.

The topography of the Island and the compact nature and location of the areas of intense pulpwood growth facilitate economical logging operations. No point on the Island is far distant from the coast. Twenty-eight miles of railway, eight main rivers, eleven secondary rivers, several smaller driveable streams and numerous inlets suitable for booming, make possible economical delivery of logs on the coast line. About 159 miles of telephone line afford communication from one end of the Island to the other. Port Menier, the southwestern terminal of the railway, provides a sheltered harbour with deep water wharves. The Island is in the lane of ocean-going traffic. Port Menier is but 340 miles distant from Port Alfred, and 470 miles from Three Rivers, and all three ports are on tide-water. Large cargoes of pulpwood can therefore be shipped from the Island during seven months of the year by cheap water transport and unloaded directly at mill docks at Port Alfred and Three Rivers.

The vesting in The Anticosti Corporation of the outright ownership of the entire Island, including so large and so accessible a reserve of pulpwood, gives the Corporation title to assets that should become increasingly valuable as supplies of available pulpwood become more scarce. Control of the Corporation by strong paper manufacturing interests ensures to the Corporation skilled technical direction and management.

SINKING FUND

By way of Sinking Fund for the Preference Shares, the Corporation will on January 1st, 1935, and annually thereafter, reserve or set apart, before any dividends are declared or paid on the common or other classes of shares of the Corporation, a sum equivalent to 50 per cent of the balance of the net earnings received by the Corporation from the sale of pulpwood during the next preceding fiscal year of the Corporation, after deducting interest and sinking fund payments on any bonds or debentures then outstanding and all dividends on the 7 per cent Cumulative Preference Shares of the Corporation then outstanding. This Sinking Fund will be used to purchase Preference Shares in the open market at or below the then redemption price and, failing such purchase, Preference Shares will be called for redemption.

PREFERENCE SHARES

The authorized amount of Preference Shares of the Corporation is $6,000,000, of a par value of $100 per share, of which $3,000,000 are presently to be issued.

The Preference Shares are preferred as to capital and are entitled to preferred dividends at the rate of 7 per cent per annum cumulative from date of issue and payable quarterly, but are not entitled to further participate in the profits of the Corporation. Dividends payable by cheque at par in Canadian funds at Montreal or Toronto. Preference Shares are redeemable as a whole or in part at the option of the Corporation on sixty days' notice at 105 per cent of par value plus accrued and unpaid dividends to the date of redemption. In case six quarterly dividends shall be in arrears and unpaid, holders of Preference Shares shall have one vote for each Preference Share held by them so long as any of such dividends continue to be in arrears and unpaid, but shall not otherwise be entitled to voting rights. The preferences and rights attaching to the Preference Shares cannot be modified except with confirmation of a vote of the holders of at least 75 per cent in value of such Shares then outstanding.

Yours truly,
GEORGE M. MCKEE, *President, The Anticosti Corporation.*

BOARD OF DIRECTORS

A. J. Brown, K.C., Chairman of Board of Directors
Director, The Royal Bank of Canada
Director, The Steel Company of Canada, Limited

George M. McKee, President
President, Port Alfred Puly & Paper Corporation
Managing Director, St. Maurice Valley Corporation

C. R. Whitehead, Vice-President
President, Wayagamack Pulp & Paper Company, Limited
President, Wabasso Cotton Company, Limited

Sir Herbert S. Holt,
President, Montreal Light, Heat & Power Consolidated
President, The Royal Bank of Canada

J. H. Gundy,
Wood, Gundy & Company Limited
Vice-President, St. Maurice Valley Corporation

Francois Faure,
Director, St. Maurice Valley Corporation

F. I. Ritchie,
Manager, Wayagamack Pulp & Paper Company, Limited

All legal details in connection with this issue are to be approved by Messrs, Brown, Montgomery & McMichael, Montreal.

Copies of the agreement between The Anticosti Corporation and St. Maurice Valley Corporation, Wayagamack Pulp & Paper Company, Limited, and Port Alfred Pulp & Paper Corporation, are available for examination at the Head Office of Montreal Trust Company, Montreal, and at the offices of Wood, Gundy & Company Limited, Toronto and Montreal.

Earnings of St. Maurice Valley Corporation and Port Alfred Pulp & Paper Corporation have been certified to us by Messrs. P. S. Ross & Sons, Chartered Accountants, Montreal; and earnings of Wayagamack Pulp & Paper Company, Limited, have been certified to us by Messrs. Riddell, Stead, Graham & Hutchison, Chartered Accountants, Montreal.

Reports regarding forest areas and conditions have been furnished by Messrs. James D. Lacey & Company (Canada) Limited, Fairchild Aerial Surveys (of Canada) Limited, G. C. Piché, Chief of Forestry Service of the Province of Quebec, Marshall C. Small, and H. R. Wickenden.

The CHAIRMAN: I was going to call on Mr. McKee, but as it is now nearly six o'clock we will adjourn till eight o'clock to-night in order to finish this.

Mr. POWER: I would like to get finished with these witnesses to-night if it is at all possible, Mr. Chairman. As far as I am concerned it won't take very long.

The committee adjourned at 5.55 p.m. to resume at 8 p.m.

EVENING SESSION

The committee resumed at 8 p.m.

G. M. MCKEE, called.

By the Chairman:

Q. What is your address, Mr. McKee?—A. Montreal.

Q. And what is your position?—A. I am assistant to the president of Consolidated Paper, in charge of operations.

Q. Who is president now?—A. Mr. L. J. Belnap.

By Mr. Power:

Q. Mr. McKee, you have been connected with the pulp and paper business for a number of years, have you not?—A. About forty years.

Q. Some years ago you were connected with the Donnaconna Paper?—A. Yes, sir.

Q. And after that where did you go?—A. I went to Ogdensburg, New York, and built a paper mill there. That was in 1923 and 1924.

Q. And from there where did you go?—A. From there I went to Port Alfred.

Q. And became vice-president of Port Alfred?—A. President of Port Alfred in 1925.

Q. And general manager of Port Alfred?—A. General manager.

Q. And afterwards became connected with Anticosti?—A. Yes, that is right.

Q. In an executive capacity with Anticosti?—A. Yes.

Q. Were you also connected with St. Maurice Valley?—A. As a director at that time, later as a managing director.

Q. As managing director?—A. Yes.

Q. And now you are connected with Canada Power & Paper?—A. No, with Consolidated.

Q. In what capacity?—A. Assistant to the president in charge of operations.

Q. By that do you mean the plant operations?—A. Plant operations.

Q. Not the woods?—A. Not directly, that is a separate department.

Q. Your experience has been largely with mill operations?—A. Yes.

Q. You are not a woodsman?—A. No.

Q. When you were at Donnaconna you were general manager in charge of the whole operation, both woods and mill, were you not?—A. Yes.

Q. Now, with regard to Port Alfred, you were president of Port Alfred, were you?—A. And managing director.

Q. And managing director?—A. Yes.

Q. When did you become connected with it?—A. In 1925.

Q. At that time what was the layout?—A. It was a sulphite mill.

Q. Just a sulphite mill?—A. Yes.

[Mr. Geo. M. McKee]

Q. What limits did it have, how large an area?—A. We had the area on the Ha Ha and the Riviere à Mars, about 250 square miles, I would say. These were rivers that came directly into Ha Ha Bay.

Q. Now, from this sulphite plant and 250 square miles of limits, what was the next step to expansion?—A. The next step was to buy the limits on the Peribonka.

Q. How many miles?—A. 2,500 square miles.

Q. Directly from the government?—A. Yes.

Q. And then did you expand your plant to take care of the woods?

By the Chairman:

Q. When was the limit purchased?—A. Late in 1925.

By Mr. Power:

Q. And then did you further extend your plant?—A. That was the basis of the development of the paper mill.

Q. Well then, you developed your plant in what way?—A. By putting four paper machines in.

Q. Do you remember what that plant cost, the new plant, the newsprint plant?—A. We spent about $12,000,000 on the mill but that is for life.

By the Chairman:

Q. And the limits you got from the government were on the usual terms? —A. We paid $600 a square mile.

By Mr. Power:

Q. I might explain at this time the government put limits up for auction; as a matter of fact, that is the only way in which they can dispose of timber limits in the province of Quebec?—A. Yes.

Q. And they have an upset price, and they bid a bonus of so much, and they did at that time also bid a stumpage price of so much over and above whatever the government stumpage might be. The government stumpage, fixed by Order in Council, is a basic rate of $2.70 per thousand feet, which works out at about $1.35 a cord, but in a great many cases during that period in the bidding the price went up to $4,000 and $5,000 a thousand over and above government stumpage.

The CHAIRMAN: A limit would be advertised.

Mr. POWER: It is always advertised. The statute provides that no limit can be sold except by auction.

The CHAIRMAN: With an upset price and then bidders come and bid.

Mr. POWER: Exactly.

The CHAIRMAN: We have the same system.

Mr. POWER: I do not suppose it is necessary to put it down for the record, but it is practically a perpetual lease.

By Mr. Power:

Q. Now, the bonus you bid to the government was $600 a mile?—A. Yes, correct.

Q. Did you bid a stumpage bonus besides that?—A. Stumpage in addition to that.

By the Chairman:

Q. A stumpage bonus?—A. Oh, a stumpage bonus?

[Mr. Geo. M. McKee]

By Mr. Power:

Q. You did not pay a stumpage bonus?—A. We did not pay any stumpage bonus.

Q. Well now, after you had built your newsprint mill your company became interested in Quebec Paper Mills?—A. The Quebec Pulp & Paper at Chicoutimi, yes.

Q. To the extent of a half interest?—A. A half interest.

Q. Was Quebec Paper Mills operating at that time?—A. Yes.

Q. And continued to operate for how long?—A. At a small capacity for some time.

Q. As far as you know it never was profitable?—A. No.

The CHAIRMAN: About what time was that?

By Mr. Power:

Q. That was in 1926, was it not?—A. Oh, we did not go into the Quebec Pulp Co. that early.

Mr. HODGSON: Early in 1927.

By Mr. Power:

Q. When Port Alfred went into Canada Power & Paper did it disappear as a separate unit?—A. Practically, except the charter was kept alive.

Q. Is the charter still alive?—A. It is still alive.

Q. How long is it since that mill has been operating?—A. Oh, it is operating now.

Q. Yes, but how long was it inactive?—A. They tell me it was down for sixteen months.

Q. During that time the woodpile burned, did it not?—A. There was no woodpile there.

Q. Was it not Port Alfred that burned?—A. Port Alfred was down for two periods. It went down in 1930 the first time. Well then, we started up Port Alfred. At the time we had the fire in the woodpile, to use up that woodpile—

Q. To use up what was left of the woodpile?—A. No. We had decided to start before the fire; we had a very big woodpile there. Then just a few days before we were ready to start we had the fire and that burned about 180,000 cords of wood.

Q. Can you tell me offhand what was paid for that wood by the insurance company?—A. It figured out something over $11. It was set on a lump sum basis.

Q. That would be $2,000,000?—A. Something about that.

Q. Which went to the bank because this woodpile had been pledged to the bank under section 88?—A. Correct.

Q. And Port Alfred is now operating?—A. It is now operating two machines out of the four.

Q. Now, let us go to Anticosti for a moment. Through your connection with Port Alfred you became connected with Anticosti?—A. Yes.

Q. And did you take an active part in the management of Anticosti?—A. Yes.

Q. Did you recommend the purchase of a one-third interest by Port Alfred?—A. I do not know as I recommended it. I co-operated in all the recommendations. I do not think I ever recommended it.

Q. Do you think that was a good deal for Port Alfred?—A. It was a good deal at the time for the purpose for which the purchase was negotiated, and that was for a reserve wood supply for these mills. When the negotiations for the purchase of Anticosti Island were started it was not with the intention of operating, but as the financing plans developed and it was decided to sell the bonds

[Mr. Geo. M. McKee]

and make these contracts to take wood to guarantee the bond interest, it became necessary to operate it right away.

By the Chairman:

Q. Did you find that was the only way it could be financed?—A. That was the only way it could be financed at that time.

By Mr. Power:

Q. Well now, why would Port Alfred need to have another supply of wood when it had purchased 2,500 square miles?—A. Well, perhaps you know that during that period it was the general belief that there was not wood supply enough for all the mills that were built and building to last ten years.

Q. Do you remember how many cords you had at Port Alfred on the Peribonka limits?—A. About 18,000,000 cords.

Q. And on the remainder of the limits belonging to Port Alfred?—A. We had something over a million cords at that time.

Q. So that you had nineteen million cords close to Port Alfred?—A. Yes.

The CHAIRMAN: You do not suggest, Mr. Power, that that would be enough to keep four machines in perpetuity, do you?

Mr. POWER: I am just going to ask him how many cords of pulpwood they used per year with four machines.

The WITNESS: With four machines we would use about 175,000 cords a year. In addition, we had a sulphite mill that made 150 tons of sulphite a day, which was approximately 45,000 tons, and that required another 75,000 cords, in other words, Port Alfred, for both sulphite and newsprint would require over 225,000 cords per year.

By the Chairman:

Q. About 250,000?—A. Yes, about 250,000.

By Mr. Power:

Q. That is 200,000 cords per year?—A. 250,000.

Q. And you had nineteen million?—A. Yes.

The CHAIRMAN: In sight.

By Mr. Power:

Q. That was practically an assurance that you had a supply in perpetuity for that mill, was it not?—A. Correct.

By the Chairman:

Q. Would that be a supply in perpetuity?—A. Practically.

The CHAIRMAN: I would not think it would.

By Mr. Power:

Q. I do not suppose it would be a secret with the trade if you were to tell me now just about what it cost you per cord landed at your mill?—A. What?

Q. Pulpwood.—A. Anticosti?

Q. No, no, the Peribonka and your other limits at Port Alfred.—A. At what time?

Q. In 1926?—A. In 1926 you must remember we did not have any from the Peribonka limits. All our wood was coming from the near-by limits. As I recall, the wood in 1926 was very cheap, as wood went at that time.

Q. $11?—A. Oh, no, much less than that.

[Mr. Geo. M. McKee]

Q. Less than that?—A. Yes, at that time; it was below the going price of wood.

Q. I suppose you had figures for what Peribonka would have cost you; you had figured that out?—A. On Peribonka wood, yes.

Q. What would it have cost you, about?—A. Well, that could have been landed at Port Alfred at a very reasonable price after the limit was opened up, but it was an expensive capital investment to open it up, but the rivers on the Peribonka were large and capable of handling a couple of hundred thousand cords of wood very cheaply.

Q. Now, do you remember what Anticosti Island wood would cost landed at Port Alfred?—A. Oh, it is very difficult to tell actually what the operating costs were because we did not work it long enough. We were installing plant and trying out methods of handling this wood, so we really never got started on the real operating of Anticosti Island.

The CHAIRMAN: You had a large capital expenditure for the installation?

By Mr. Power:

Q. What did Port Alfred wood cost your company, you had to pay for it? —A. Cost us?

Q. What did Anticosti Island wood cost the Port Alfred company, what did it pay for it?—A. The Port Alfred company never received any.

Q. Was there never any Anticosti Island wood landed at Port Alfred?—A. No. It was used mostly by the St. Maurice Mill and the Cape and Wayagamack. I beg your pardon, I missed there. We did bring some wood to Port Alfred from Anticosti.

Q. You do not know how much it cost you then?—A. I don't remember how much.

Q. Do you know how many cords of wood were taken off Anticosti?—A. Between 300,000 and 400,000 in the whole period that we operated. There was a great deal of wood taken off by Meunier.

Q. But in the period when it was operated by the Anticosti Corporation you say there were 300,000 cords?—A. Somewhere in that neighbourhood.

Q. That was two seasons?—A. Oh, it was more than that, about three years or four years.

Q. Four years?—A. Yes, three to four years.

Mr. HODGSON: Four seasons, 430,000.

The CHAIRMAN: Was that the total in the four seasons?

Mr. HODGSON: Yes, sir.

Mr. POWER: That under the terms of the contract was to be the total for one season, under the terms of the agreement between these corporations.

The CHAIRMAN: Well, 390,000 for the first three years and 420,000 each year after that.

The WITNESS: We never reached that point.

By Mr. Power:

Q. You never reached the minimum quantity which you had undertaken to take off?—A. Oh, no.

Q. And to your knowledge did Port Alfred pay a sum of money equal to the minimum quantity that it engaged itself to take off the island?—A. Yes.

Q. For how many years?—A. Up till the time of liquidation.

Q. I do not want to go into all this figuring again as to the value of a share of Port Alfred in terms of Consolidated, but your shares of Port Alfred were exchanged two and three-quarters for one of Canada Power & Paper?—A. Yes.

[Mr. Geo. M. McKee]

Q. And those $2\frac{3}{4}$ shares have become?—A. They have become about $3.50.
Q. About $3.50 for ten of them?—A. Yes, ten of the exchanged shares.
Q. So your one share of Port Alfred now would be worth about a quarter of $3, that is about 75 cents, that is right?—A. Yes.

Mr. POWER: That is all, thanks.

By Mr. Howard:

Q. Mr. McKee, as operating manager of Consolidated and of Port Alfred beforehand, how did the wood from Anticosti compare with other wood that you were getting?—A. Will you just repeat that again, Mr. Howard?
Q. I say, as the operating manager, that is, the paper man of the concern, how did the wood from Anticosti compare with other woods you were getting?—A. Oh, very much higher.
Q. In price?—A. In price.
Q. But as to quality?—A. The quality was very good.
Q. As good as the average?—A. It was very good wood.
Q. Could you get as many pounds of pulp from the Anticosti wood as from North Shore wood?—A. From North Shore wood, yes.
Q. But not as good as you could if you had used Peribonka?—A. No, because the Peribonka is black spruce.
Q. I might ask you the same question I asked Mr. Chahoon, a few minutes ago. You considered the Anticosti, as a purchase for reserve purposes, a good purpose?—A. I did.
Q. But taking the figures you gave a minute ago, and taking the growth of $2\frac{1}{2}$ per cent per annum, you would know that you were using at Port Alfred 250,000 cords of wood that the limits you had on the Peribonka would never be exhausted, because it would have produced enough for 2, 3, and 4—.—A Yes, but we had very ambitious plans. The whole plan was rated up for 8, instead of 4 machines.
Q. That is exactly what I wanted. In other words, you, like the other fellows, were considering that the paper business was a good one at that time?—A. It was.
Q. You were going to expand?—A. We had in prospect, business for that additional equipment, due to the increase in the demands of our customers at that time; but we did not know all this other expansion was going to come in. Our business was expanded so that we had the right to believe we could keep on installing to take care of our customers, but instead of that, this other very wide expansion came along.
Q. You were a shareholder personally of Port Alfred?—A. I was, to a very large extent.
Q. You favoured the amalgamation of Canada Paper?—A. Was I in favour of it?
Q. Yes.—A. Not up until the last; always opposed it.
Q. Oh?—A. Personally.
Q. Why?—A. Because I had great faith in Port Alfred; there was a reason for our going into Canada Power. First—
Q. You personally, as a large shareholder, did not favour it?—A. Did not favour it at the start. I did when we finally came in; I was for it. But conditions changed as time went along, because of the contract situation. Our contract made it more favourable for us to come in with Canada Power than to stay out.
Q. In other words, you did not feel that all alone in the field you could maintain your price?—A. No.

[Mr. Geo. M. McKee]

By Mr. Power:

Q. That is to say it was very difficult for an independent concern to carry on in those days?—A. Yes.

The CHAIRMAN: Or maintain its contracts?

The WITNESS: To maintain our contracts.

Mr. POWER: That is all.

By the Chairman:

Q. I should like to ask a question. I have asked this of Mr. Gundy, and I am going to ask it of you. You were the president of the Port Alfred company at the time of the merger. Was there any remuneration, fee or commission, direct or indirect, paid to anybody on the merger of this company in the Canada Power and Paper company?—A. Absolutely none.

Q. None?—A. None.

Q. Was there any fee, commission or remuneration or advantage, either direct or indirect in the purchase of Anticosti?—A. Nothing.

Q. To any of your companies?—A. Nothing, excepting the $500,000 to Wayagamack.

Q. Just why was that paid to them? They had the option?—A. They had the option.

Q. Was it because of the sale of the option?—A. Sale of the option.

Q. The purchase price of the option. So long as we understand it, you can call it anything you like. That is all.

Witness discharged.

CHARLES ROSS WHITEHEAD, called.

By the Chairman:

Q. What is your name?—A. Charles Ross Whitehead.

Q. Where do you live?—A. Three Rivers, and I work in Montreal.

Q. What is your present connection, if any, with the Canada Power and Paper Company—another assisting president?—A. In charge of the business end.

Q. The financing?—A. Yes.

Q. You are the vice-president in charge— —A. No, in charge of the general business.

Q. Who is the president, Mr. Belnap?—A. Mr. Belnap is president.

Q. In charge of finances?—A. In charge of finances.

By Mr. Power:

Q. Mr. Whitehead, am I making a correct statement when I say you were the founder of the Wayagamack Pulp and Paper Company?—A. Yes.

Q. Prior to that you had been interested in the textile business?—A. Yes.

Q. In 1910 you organized the Wayagamack Pulp and Paper Company?—A. Yes.

The CHAIRMAN: Have you the balance sheet of the Wayagamack company?

Mr. POWER: I have not got one.

The CHAIRMAN: Have you the balance sheet?

The WITNESS: I have at the hotel, but not here.

(Wayagamack balance sheet printed *supra*, p. 839.)

By Mr. Power:

Q. How was the Wayagamack capitalized at the beginning in 1910. What was the capitalization?—A. In 1910 we issued 50,000 shares of common stock and an authorized issue of 5,000,000 bonds, 6 per cent, 40 year, of which we sold 3,500,000.

[Mr. C. R. Whitehead]

Q. Did you say $50,000 worth of common stock?—A. 50,000 shares.

Q. $100 a share?—A. $100 a share.

Q. $5,000,000— —A. $5,000,000; an authorized bond issue of 5,000,000, of which we sold 3,500,000. At a later date, in March, 1922, we sold the other million and a half.

Q. How did you pay for the 50,000 shares; were the 50,000 all paid up?—A. They were issued paid up for a power contract on the Baptist property that we acquired beforehand, and other considerations.

Q. Who acquired the Baptist property? You personally?—A. Yes.

Q. You did personally?—A. Yes.

Q. You purchased the lumber mills, I understand?—A. The whole property, yes.

Q. What other properties did you acquire?—A. The limits

Q. Did you acquire Ritchie's?—A. From Baptist, also?

Q. Did you acquire the Ritchie property, too?—A. No.

Q. So, the nucleus of the Wayagamack was the old Baptist timber limits and saw mills?—A. Yes.

The CHAIRMAN: Crown limits?

The WITNESS: Crown limits; small freeholds amongst that, but they would not amount to anything.

By Mr. Power:

Q. Those limits were paid for out of the proceeds of the sale of the stock in Wayagamack, is that it?—A. Paid for out of part of the sale of the bonds and part in stock.

Q. Then you proceeded to erect the mill?—A. Yes.

Q. A paper mill?—A. Yes.

Q. A kraft mill?—A. Yes.

Q. You were not in the newsprint business?—A. No.

Q. You never were?—A. Kraft pulp and kraft paper.

Q. You proceeded to erect a kraft paper mill?

The CHAIRMAN: Were you never in the newsprint business?

The WITNESS: Never in newsprint.

By Mr. Power:

Q. It was paid for out of the proceeds of the bonds?—A. Yes.

Q. So that, let us say in 1911 you had a kraft paper mill and how many miles of limits?—A. 1,121.

Q. You had 1,121 miles of limits which had been paid for out of proceeds of the sale of $5,000,000 worth of stock and $5,000,000 worth of bonds?—A. Yes.

Q. And then, was there any further change in your capitalization?—A. No; the next change was in March, 1922, when we sold the balance of the bonds, at that time 1,500,000 for further capital expenditure. We enlarged the mill at that time.

Q. You enlarged the mill?—A. Yes.

Q. Did you acquire any further limits?—A. No.

Q. That is the last capital reorganization or capital increase?—A. Yes, that was the last until we came to the next business.

Q. That was— —A. That was in January, 1925. Previous to that time, during the summer of 1924, I went over to the other side, and negotiated a loan with the British government under the Trades Facilities Act for £425,000, 5 per cent bonds, maturing in 1940, maturing through a sinking fund. We also, through Wayagamack, floated 1,500,000 6½ per cent five-year general mortgage and collateral trust gold bonds.

[Mr. C. R. Whitehead]

Q. These, too, were to build the news mill?—A. The newsprint mill, yes.

Q. How many machines?—A. Two machines.

Q. At Three Rivers?—A. At Three Rivers, right alongside the other one, right alongside the kraft mill. At the same time we issued for the news mill 2,000 shares of common stock which all went to and are still held by the Wayagamack, or as long as it was a company.

Q. What was the consideration?—A. There was not any. We had put as collateral security for that 1,500,000 of bonds which the Wayagamack sold and gave the proceeds to the news mill.

The CHAIRMAN: Issued as a bonus?

The WITNESS: Issued as a bonus, but it went to the other company. They did not go to any people, never were distributed.

The CHAIRMAN: Did you have two separate companies of newsprint?

The WITNESS: Yes.

The CHAIRMAN: Another set-up?

The WITNESS: Yes, sir.

By Mr. Power:

Q. It was called Wayagamack News Limited, was it not Mr. Whitehead? —A. Yes, but we ran it and kept it separately at that time.

By the Chairman:

Q. The old Wayagamack, did they guarantee the bonds of the newsprint mill?—A. Yes, actually issued bonds themselves and turned the proceeds over.

By Mr. Power:

Q. Just as a matter of curiosity, what security did you give the British government, did you say?—A. The British government?

Q. For the loan of £425,000.

The CHAIRMAN: What did you give them?

The WITNESS: A mortgage on the property, a mortgage bond.

By the Chairman:

Q. You held a trust mortgage against it, did you not?—A. No, that was the first.

Q. $5,000,000?—A. That was along with the Wayagamack kraft mill when it became the newsprint mill.

By Mr. Power:

Q. The British government assisted you to the extent of £425,000 in the building of the newsprint mill?—A. Yes.

The CHAIRMAN: And took a first mortgage?

Mr. POWER: And took a first mortgage?

The WITNESS: Yes.

The CHAIRMAN: A closed first mortgage?

The WITNESS: Yes.

By Mr. Power:

Q. You really bought £425,000 worth of British machinery.—A. I bought £425,000 worth of British machinery.

Q. Then, the Wayagamack went on until it was taken over without any change in capitalization?—A. Yes; it went on like that until—first of all, in

[Mr. C. R. Whitehead]

1920, Wayagamack Pulp and Paper Company got out supplementary letters patent, and took authority to exchange their 50,000 common shares of the value of $100 par value for 100,000 shares of no par value, and also obtained power to issue 150,000 additional shares of no par value. At that time, they did nothing more than get out the supplementary letters patent. They took no action.

The CHAIRMAN: They did not make the exchange.

The WITNESS: Not at that time. Then, as we built the news mill, they did exchange. They exchanged the 50,000 shares of $100 par value, for 100,000 shares of no par value.

Mr. POWER: That is to say, the shareholders got two shares of no par value for one share of $100?

The WITNESS: Yes.

The CHAIRMAN: That did them no harm.

The WITNESS: No. What governed us at that time we thought that it was fair to have our statements out and the value of the share was whatever that statement was shown at.

By Mr. Power:

Q. And then in 1929—.—A. Then, at a later date, on the 15th March, 1928, we issued 33,333 shares, that is how those odd shares come in, at $60 a share to our shareholders on the basis of one in three, and we used the process of that to retire a million and a half dollars of bonds we had issued for the news mill, or the $6\frac{1}{2}$ per cent bonds. We got them out of the way.

Q. Were they British bonds?—A. No, Canadian bonds, but they were maturing, and they got them out of the way.

Q. You got them out of the way by the issuing of the—.—A. The common stock.

Q. What was next?—A. Then, on September 24, 1929, we joined the Canada Power and Paper Corporation on the basis of $50 principal amount, $5\frac{1}{2}$ per cent debenture stock, as you heard this afternoon, and $1\frac{1}{2}$ shares of common.

Q. What were your shares worth on the market from 1920, say, to 1929 when you joined the Canada Power and Paper Corporation? Of course, there was a change in them there, but take from the time the new shares were created, the new no par value shares, what was the value on the market?—A. I would not like to say offhand. I know some of them ran pretty high, because I paid pretty high myself.

Q. They ran from about $60, I suggest to $140?—A. Yes; I paid $149 for some.

Q. You paid $149 for some?—A. Yes.

Q. Could I ask you to do some figuring and tell us what they are worth to-day?—A.Well, I think they would be worth a good deal more than they are.

Q. That will be something?—A. Yes.

Q. I am glad to know there are some optimists.

By the Chairman:

Q. You have faith in Canada Power?—A. I have, or I would not be working day and night like I do. I am perfectly sure of it. You may laugh, but I think the company will come back.

Q. Unfortunately, a large number of common shareholders have been practically wiped out.—A. There is no doubt about that.

The CHAIRMAN: That is the sad feature of it.

The WITNESS: Yes.

[Mr. C. R. Whitehead]

By Mr. Power:

Q. Now, let us go back to Anticosti. You negotiated this transaction, did you not Mr. Whitehead?—A. Yes.

Q. You went to France and interviewed Senator Meunier and found out he wanted how much?—A. He told me to get in touch with Mr. Martin-Zede.

Q. He was the commandant of the island?—A. Yes; he had been the commandant of the island. It was Mr. Meunier proper who bought the island. Martin-Zede was his very personal friend. In fact, he was the man who induced me to buy that. I never knew what it was, but I had a deal with Martin-Zede, and I only saw Mr. Meunier three or four times.

Mr. Power: Might I just stop to explain, for the sake of the record, that as far as I can recollect Meunier purchased outright the whole Island of Anticosti and obtained certain rights which were equivalent to the old seignorial rights; he had mining rights, fishing rights, and timber, hunting; in fact he was a kind of a sovereign of the island, subject to the sovereignty of the Dominion of Canada.

The Chairman: He had to buy it from Quebec.

Mr. Power: He bought it from the government of the Province of Quebec.

Mr. Cobban: From Stockwell.

Mr. Power: But in any case he had some extraordinary rights there, and he had a gentleman in charge who was called a Count. People were not allowed to land on the island without permission. No fish could be taken, and there was no hunting allowed, except by Senator Meunier and his friends. In other words, he got it as a private game preserve, with the exception that at odd intervals he cut off a little pulp wood, probably to pay for the cost of administration; and that was the situation when Mr. Whitehead proceeded to France, and he was asked to interview Martin-Zede, who had the title of Commandant.

By the Chairman:

Q. What was the underlying motive in buying it, Mr. Whitehead?—A. Like Mr. McKee, I was ambitious, and when we laid out a plan for two machines, we actually laid out for four. The only reason we never put four in was that we were just pushing into the industry, and we had practically no right there. At that time when I went across to the island we had looked carefully all over the Province, everywhere where it was tributary to our mill, and we could not find the limit anywhere that was not under option to the Canadian International, except Anticosti Island.

By the Chairman:

Q. That was when Esteri sold out to Graustein?

By Mr. Power:

Q. Limits were hard to find at that time?—A. They were hard at that time to find.

Q. Well then, you proceeded to France and you were sent by Senator Meunier to his Commandant, Mr. Martin-Zede. You were under the impression, it seems to me that you must have been, that there was an arrangement between Meunier and Martin-Zede that he was to have a commission any time it was sold?—A. He demanded it anyway.

Q. Mr. Meunier demanded it?—A. Yes, he demanded it.

Q. And you purchased the Island for $5,500,000?—A. $7,000,000.

Q. For $6,500,000?—A. No, $7,000,000 we paid for it.

Q. Or you paid for it $7,000,000 and $1,000,000 went to Martin-Zede as commission?—A. Yes.

[Mr. C. R. Whitehead]

Q. And $500,000 was paid in commission before it was turned over to you; that came out of the other two companies?

The CHAIRMAN: It did not come out of Meunier.

The WITNESS: That came out of the other two companies, they paid our company half a million dollars for the option.

The CHAIRMAN: So it cost $7,500,000.

By Mr. Power:

Q. That is to say, Meunier and his associate Martin-Zede received $7,500,000?—A. The other half million never changed pockets.

Q. $7,000,000 went to the French interest?—A. Yes.

Q. Then you returned to Canada and you found that perhaps this was too big for Wayagamack alone?—A. We returned with the option, and we knew it was too big.

Q. It was too big, you returned with the option and then you went to the Port Alfred, and the St. Maurice companies?—A. I met Mr. Gundy.

Q. You went to Mr. Gundy?—A. Yes.

Q. He was then interested in both Port Alfred and the St. Maurice, and you suggested to him that they should take two-thirds of this option?—A. It was the other way around, he came to me. As it was freehold it could be exported.

Q. It was of great use to the Canadian International, they had mills outside and this was exportable?—A. We thought it was pretty valuable at that time. It was too large, 15,000,000 cords, more than we wanted.

Q. You agreed to turn over this island to the Anticosti corporation at a price of, what?—A. Half a million dollars plus.

Q. $7,500,000?—A. $7,800,000.

Q. Of which each of the companies should pay one-third?—A. No, each paid one-third of the $7,000,000, but Port Alfred and St. Maurice paid over half a million to Wayagamack.

Q. Paid over half a million to Wayagamack, and that money went into Wayagamack's cash?—A. Yes.

The CHAIRMAN: At that you actually got one-third of the other half million. That is how it works.

Mr. POWER: That is it.

The CHAIRMAN: Well, that was a good stroke, Mr. Whitehead.

By Mr. Power:

Q. I do not know that I want to discuss the point you have just raised. I will ask you just one question: at that time, and even to-day, pulp cut off crown lands in the Province of Quebec is not exportable to the United States? —A. No.

Q. And this being freehold land it was exportable?—A. It was exportable.

Q. And had an additional value on account of the wood being exportable, and the pulpwood being saleable in the United States, whereas from other limits in the Province of Quebec pulpwood could not be so sold?—A. That is so.

Q. It was therefore more valuable to a concern which had mills in the United States than to a concern which had mills only in Canada?—A. It was valuable for sale outside.

Q. It would have been more valuable to the International than to others.

The CHAIRMAN: Would not it be rather this way, that the freehold would be more valuable in the United States than Quebec Crown Land timber; that is what you really mean.

Mr. POWER: Yes, quite.

By Mr. Power:

Q. Now, proceeding, you were a director of the Anticosti corporation?—A. Yes.

Q. You became a director?—A. I became a director, yes.

Q. One of the managers, no doubt?—A. No, I was not a manager, but I became a director.

Q. And the company proceeded to operate?—A. Yes.

Q. We have just been told that during four years of operation there were approximately 450,000 cords of pulpwood cut?—A. Yes, 430,000.

By the Chairman:

Q. You were president of the Anticosti corporation, weren't you?—A. No, Mr. McKee was president.

Q. Oh no, excuse me; that is right, I am mixing the two men.

By Mr. Power:

Q. Some wood was delivered to Wayagamack?—A. Yes.

Q. What was the cost of the wood delivered to you as compared to the wood which you obtained from your limits?—A. Well, it was more expensive.

Q. Much more?—A. Yes, it cost us a good deal more.

Q. Is it fair to say that it cost you nearly $25 a cord for Wayagamack?—A. No, it cost us much less than that.

Q. How much less?—A. About $14. I would like to give a little explanation here, because a statement like that without an explanation is really not fair. If we had started in quietly at Anticosti—you see, we had two obligations there; one was to take off the wood and pay so much a cord, or we had to pay up in cash. Had we gone at it a little more slowly starting we undoubtedly would have had very much cheaper wood. We started in with a little too large operation. First of all, we did not get a man—the man we got was not the man to do it successfully. It is pretty hard to get a man to go down there and load at Anticosti. You expect a man to take off from 150,000 to 200,000 cords of wood. As we went on we got up in our costs. Mr. Howard and I could probably never agree on this, but I still believe, I feel very sure, that we can take wood off Anticosti very economically. We made a very careful study of it, and that study cost us a lot of money, and that cost went into the wood.

Q. How do you arrive at your figure of $14, Mr. Whitehead?—A. We are taking the money that we spent.

Q. Including the carrying charges?—A. Yes, and you have to add $2.40 stumpage.

Q. That would be $16.40?—A. Yes.

Q. How about your obligation?—A. That was a capital charge, almost the same as though you charged interest on what you pay on your limits, which you don't do as a rule. You buy your limits and you do not charge that interest on your limits on your wood, do you. At Anticosti you hardly require to charge that $2.40 onto the cost of the wood.

Q. Somebody had to pay it?—A. We also have to pay it on our limits.

Q. It has to go somewhere?—A. Yes.

Q. Did you take into consideration in arriving at this $14 cost, the cost of installing your plant, and so on, at Anticosti?—A. We put the interest on it.

Q. In other words, this is just the pure cost of chopping down the trees and bringing the pulpwood around to wherever the shipping point was, and shipping it to Three Rivers?—A. And taking it to Three Rivers.

Q. And $14 was that cost.

The CHAIRMAN: Plus interest on capital invested at Anticosti.

[Mr. C. R. Whitehead]

The WITNESS: Plus $2.40 interest. When you buy a limit and put money up for your limit, you do not charge yourself with the interest that you ultimately pay, you put it against the cost of the wood. So I do not think—probably we ought to take that $2.40 and put it against the cost of the wood, which was in the neighbourhood of $14.

By Mr. Power:

Q. What would you pay for the wood in the neighbourhood of your mill? —A. About half that.

Q. On your capacity of two newsprint machines, and how many kraft machines?—A. We have five.

Q. How much wood do you require per annum?—A. We really increased to seven kraft machines. It would take nearly one and three-quarter cord for a ton of kraft paper.

Q. I am speaking of the time you purchased Anticosti, you had five kraft machines and two newsprint machines.

The CHAIRMAN: What the requirements were before you bought Anticosti.

The WITNESS: Over 450 cords a day, around 125,000 cords a year.

Q. What do you figure you had on the Wayagamack limits?—A. We had 1,121 square miles, and we figure about 6 to 7 cords to the acre.

Q. I figure it at 8 cords, roughly 6,000,000 cords. Eight would be a little high at that time?—A. That would be perhaps a little high.

Q. So you would have about 5,000,000 cords?—A. I did not figure that out. I do not remember that.

Q. You could have cut your 120,000 cords a year without interfering with the annual growth, without using your capital, so to speak, of the limits?—A. You must remember that Wayagamack limits are not all timber. I figure you could not get that, because you see you have got to allow for fires and things like that.

By the Chairman:

Q. What is the natural growth there?—A. You have a great deal of area in lakes and you have to allow for that. I cannot tell you off-hand the number of cords we estimate, I do not remember.

By Mr. Power:

Q. I should imagine if you had to issue a prospectus about that time, in order to get the public to buy your preferred stock or bonds, that you would certainly have given the cordage over the entire area as at least 6 cords to the acre?—A. I think 6 cords to the acre for the entire limit would be all right.

Q. So that would be about 4,200,000 cords.

The CHAIRMAN: Would not that be a very small cordage for that number of machines?

Mr. POWER: That is just what I am coming to; I think possibly it was in this instance at any rate.

The WITNESS: It was a very small cordage for our mills.

By Mr. Power:

Q. In this instance at any rate he was below, away below, the margin of safety, let us say, for perpetual operation of these limits. You use about 100,000 cords?—A. We had a fire in which we lost 100 square miles, and which also had an effect on our feelings about the matter.

The CHAIRMAN: Now, Mr. Power, before you leave this witness, and I think I should have brought it to your attention before, what relation do the banks have to this. We are losing sight of that particular aspect of the enquiry.

[Mr. C. R. Whitehead]

Mr. POWER: I asked you to bring my attention to it in case I went astray.

The CHAIRMAN: I am doing so now, I intended to before.

By the Chairman:

Q. In the pulp and paper industry do the banks have a right to know all of this, in the expansion of Wayagamack or in Anticosti?—A. I do not know that we consulted them very much about it.

Q. You do not consult them. Do they finance you?—A. No, they never financed us. I have a record here of our dealings with them from 1914 to 1931.

Q. What was the extent of the credit; I do not mean in hundreds of thousands, but was it for working capital purely?—A. Pure and simple. In the first year, early 1914, we asked them for a credit of $250,000, because we had capital enough practically to work on. They carried us along and we reduced that. It was $50,000. In 1918 we had asked for $800,000 and we paid them that year. The next year we paid it off. The next year we asked for $1,700,000 and we used $1,200,000 and we paid that off. The next two years we asked for $1,900,000, and we reduced it to $200,000. The next year we asked for $700,000, and reduced that to $360,000. The next year we asked for $1,500,000 and reduced that. And the next year we asked for a million and a quarter, took a million and reduced that to nothing. So that it was reduced every year to nothing.

Q. That is a fine record. Have you at any time ever received from any of the banks loans for capital account, for capital expenditures, for the building of mills and the installation of machinery, or the purchase of limits?—A. At one time I temporarily used them for a small loan. They knew what I was going to do at the time. It was used to a certain extent for machinery that we put in.

Q. That is a temporary advance?

By Mr. Power:

Q. Did you ever ask the banks for any money in connection with Anticosti? —A. No.

Q. You simply sold your option to these other two corporations, or to the Anticosti corporation, and you got that $6,000,000 from the public; is that right? —A. Yes.

Q. And you received the money from the public before you were called upon to pay Meunier?—A. No, we paid Meunier first of all.

Q. Then what?—A. We made a loan for that.

Q. Made a loan, from whom?—A. From the bank. That was a very short loan, a temporary loan.

Q. What bank?—A. The Bank of Montreal, I think, I am not sure.

Q. Which is the guilty party there?

Mr. WILSON: I just heard the statement you made about the bank loan, Mr. Whitehead, and I was going to refresh your memory. There was a loan. The Royal Bank made the loan for two or three weeks, until you could complete the deal and give over the securities to the bond dealers.

Mr. POWER: That is to say the loan was made to meet the payment due Meunier, $7,000,000?

Mr. WILSON: Yes, it was probably in that vicinity. I remember another incident in connection with it, the stipulation was made that we would not make this big loan unless Senator Meunier agreed to keep the money on deposit with us for a couple of months, which he did; so we got the deposit for a couple of months and made the loan.

Mr. POWER: It is suggested to me that I ask Mr. Wilson whether he paid Meunier any interest while the money was lying there.

Mr. WILSON: I daresay we did.

[Mr. C. R. Whitehead]

Mr. POWER: Because within a short time the public subscribed enough money to pay off the loan from the bank.

By Mr. Howard:

Q. Mr. Whitehead, in your transactions with the bank, when you borrowed this money for the Anticosti Corporation, what security did you give for the loan?—A. The temporary loan?

Q. Yes, the temporary loan to pay Meunier?—A. I do not remember.

Q. You do not know if you gave any?—A. I do not remember.

Q. Did you guarantee the loan personally?—A. No.

Q. Did you, in connection with some of your transactions, in the financing of your own property?—A. No.

The CHAIRMAN: The probabilities are that they issued a first bond issue and they put up one bond of $6,000,000—a temporary bond—while the others were actually guaranteed, and the bank held that temporary bond.

Mr. POWER: Is that what they did, Mr. Wilson?

Mr. WILSON: No. We did not hold any bond. We satisfied ourselves that the bonds had been sold to responsible people, and we knew the deal was going through, and we had the joint and several obligations of these three concerns, the Wayagamack and St. Maurice and Port Alfred.

Mr. HOWARD: From the time, due to the two answers we have received that you decided to pay off Meunier with a public bond subscribed for $9,000,000 —$6,000,000 of bonds and $3,000,000 of preferred stock, somebody must have underwritten the issue. Do you know who were the underwriters for that bond issue before it was sold in public?

The CHAIRMAN: We could recall Mr. Gundy, on that point.

Mr. WILSON: Wood, Gundy underwrote them and sold them in ten days, the bonds and the preferred stock.

The CHAIRMAN: Here is the prospectus for the 7 per cent preferred, and that was August 6, 1926. (See prospectus, printed *supra,* p. 862.)

By Mr. Howard:

Q. Now, I would like to ask the witness two or three questions, not perhaps on this, but in connection with this matter. Mr. Whitehead, when you first made your amalgamation with Canada Paper and Power, or before that time, how did you happen to get onto the Wood committee of the Canada Paper and Power?—A. I never was on the Wood committee. I had matters come before me with the other directors. I never was on the Wood committee—never until I was in that company.

Q. Until you were in the company; but after you were in the company, then you took on obligations and you and another gentleman supervised the contracts for the purchase of wood?—A. Yes, we supervised, and to a certain extent with others.

Q. With another gentleman and Mr. Faure who was the manager of the Woods operation, but Mr. Faure signed no contracts that you two did not O.K.? —A. I may have looked at them, yes.

Q. At certain times during that period did you find that considerable wood contracts had been made where the contracts had not been definitely signed and which you turned down?—A. I did turn down some contracts not definitely signed, yes.

Q. For any special reason?—A. Yes, we had too much wood.

Q. But, at the same time, when you did that you were taking Anticosti wood at double and a half the price?—A. To a certain extent we were.

[Mr. C. R. Whitehead]

Q. Now, in your figures on the wood from Anticosti, you said a little while ago that $16.40 was the figure without figuring in your capital writeoff. At that time that was about double, according to your figures of what you could buy wood for?—A. My bond was for certain wood on which the contracts could be cancelled. I had only come into the affair about that time. You know that.

Q. I happen to know that.—A. And the Anticosti operation was on at that time and that wood had to be taken and cut and transported.

Q. When you cut wood for the Baptist limits and the Wayagamack limits at that same period, what did you figure that was costing you?—A. Somewhere around $7.

Q. And in spite of that, the annual growth, without any depletion, in perpetuity represented 100,000 cords of wood, (and the limits were located on the St. Lawrence river) you still thought the Anticosti contract was a good contract? —A. Yes.

Q. What effect do you think the Anticosti purchase as a whole, and its obligation, had in connection with the liquidation of the company?—A. I say, taking the other things into account, that a good many things cause that; but if you look back, seeing the picture as we see it to-day, there are a good many things we did that if our foresight had been equal to our hindsight we would not have done then.

Q. You are a financial man, and I know you have had considerable experience in financing, do you realize that if Anticosti is not touched—of course, I know you are not paying interest on the bonds—but even the bonding charges or the interest on the money loaned would represent pretty nearly half a million dollars a year?—A. Yes.

Q. And if that was fifteen years without operation it would add seven and a half millions to the price of sixteen millions; in other words, it would be worth twenty-three and a half million dollars?—A. I may say that we are doing everything we can to get revenue off that island one way or another. We are gradually building up that revenue.

Q. And you are still of the opinion that wood can be got from Anticosti, if handled carefully at a reasonable price?—A. Yes.

Q. Not at to-day's price, but a reasonable price?—A. Yes.

Q. And you say that during your financing of your own company, Wayagamack, at no time did the banks want you to cover your loans or reduce your loans or clean up?—A. No, sir.

Q. You had no trouble?—A. No, sir.

Q. And you always got what credit you needed. What loan did your company have when you went into Canada Power and Paper—what bank loan did you have?—A. I did not have any.

Q. Now, to get back to your wood contracts. In connection with any of the contracts which you turned down when you were acting on the Wood committee, did you get into any lawsuits?—A. No, sir.

Q. Nobody sued you for breach of contract?—A. No, sir.

Q. And you turned them down with a smile and thought it was all right? —A. I turned them down with a good deal of compunction, as you know. I did not smile.

The CHAIRMAN: Mr. Whitehead would like permission to make a statement in the nature of a justification of their course, and I think, it is due to him to allow him to make that statement. He has some charts and figures.

Mr. POWER: He can file them as far as I am concerned, and they will be printed in the record. (See Appendices AI and AJ.)

The CHAIRMAN: They are charts and figures. Perhaps he would like to give some explanation and then file them.

[Mr. C. R. Whitehead]

Mr. HOWARD: In connection with Anticosti?

The CHAIRMAN: No. The newsprint situation.

The WITNESS: This afternoon or this evening somebody asked me when Mr. Gundy came into this thing whether he was in favour of going into the Canada Power and Paper Corporation. I have been asked why I went into it.

Mr. HOWARD: Have you asked yourself that?

The WITNESS: I have asked myself a good many times. Nevertheless, having done it the thing is to look it squarely in the face and pull the matter through if we can, and I think we are going to do it. Now, the point is this, that at the time the Canada Power and Paper Company was formed in 1926—that was the last paper mill they built, the last extension they put in was in 1926—at that time they foresaw, no doubt, that their plans were to go on and increase, but they foresaw that others were going into the business. It was rumoured around, and as Mr. Gundy said, some of these people started some time in advance before they actually built the mill. But the men in charge of the Canada Power and Paper Company—I was not in it at that time—foresaw this and they stopped blank at 1926 and they built nothing after that date. Now, we come to 1927, and the Abitibi put in 500 tons extra, Anglo-Canadian put in 240, Brompton put in 120, Canadian International put in 500, Fort Francis put in 120, Thunder Bay put in 120 tons—in all 1,600 tons a day in one year. In 1928 the Anglo-Canadian put in another 240 tons, Kenora Paper Mills put in 125 tons, Lake St. John put in 260 tons, Spruce Falls put in 480 tons, Thunder Bay put in 126 tons, Murray Bay put in 100 tons, making 1,331 tons. In addition to this United States and Newfoundland were also adding tonnage. In 1929 Bathurst put in 70 tons and the Canadian International put in 45 tons, Great Lakes put in another 150 tons, Mersey Paper Company put in 240 tons, Price Brothers put in 240 tons and the St. Lawrence put in 150 tons, making a total of 895 tons. In 1930 the Canadian International put in another 480 tons, MacLaren put in 240 tons, Powell River put in 120 tons, or another 840 tons. So it is rather astounding when you look at the summing up. In 1926 the installed daily capacity of Canadian Mills was 7,952 tons a day. At that time, associated companies, Canada Power and Paper Corporation stopped and did not put any more in because they foresaw that these mills were being built. In 1933 the capacity had increased to 12,618 tons a day, or $58\frac{1}{2}$ per cent. At the same time in the United States the total tonnage in 1926 was 13,960 tons; in 1933 it was 19,401 tons or a total for the North American continent of 39 per cent. I feel that the Canada Power and Paper Company had some justification at that time in thinking they were going to be prosperous; there was nothing in the world to lead one to think they were not. We, in our own Wayagamack, felt that we were going to be successful. We had every right to think so at that time.

Mr. FRASER (*Northumberland*): What year?

The WITNESS: 1926. We had taken great care to look into the situation thoroughly, and we foresaw that all these people were building—that this man was going to build and that man was going to build—and we stopped. Now, had we not got into Anticosti; had we known that none of us were going to go ahead with our tonnage I do not think we would have bought more limits; we would have stopped buying limits the same as we stopped building mills. Looking back I know we look foolish, but looking forward the picture was not the same. I think that should be taken into consideration. On top of that awful growth in tonnage which caused our production to decrease until we got down to almost 35 per cent, and we got down lower than that—there was almost a perpendicular drop in paper because consumption of newsprint by the publishers dropped off drastically, as you know during the crisis, and the price dropped to $30 a ton. So with paper at $30 a ton plus the extra cost of run-

[Mr. C. R. Whitehead]

ning your mill at a small percentage, the picture was a very greatly changed picture from the one which guided all these men when they laid out their first plans. I feel it at this time, and I, probably, was one of the greatest sufferers; I own a third of Wayagamack; but at the same time I cannot help but think that they used good judgment at that time. Had we seen the future, it would have been rotten judgment; but we cannot see into the future; that is one thing we cannot see into.

By Mr. Howard:

Q. If this is not a personal question, when you went into the merger what did you consider your third holdings in Wayagamack were worth at that time?—A. Well, they were worth quite a few millions. They were counted as worth that.

Q. And what about the same holdings to-day?—A. The stock I paid $149 for you could get for 50 cents a share. I hold my stock to-day and I work as the different officers of this company and the whole staff of this company are working to-day believing it will come back. The pity of it is that those who were practically wiped out are practically wiped out. We cannot help that. I say it will come back.

Q. Just a word of explanation in connection with what you say. Take Brompton—you quoted them as one company that installed 100 tons capacity in 1927. Now, the foundations of that plant had been put in ten years previously. They were producing pulp that they could not sell. They had their whole project with a great amount of wood and everything, and they needed that to complete their entity?—A. Mr. Gundy brought that out to-day. Many of those people had laid their plans long before.

The CHAIRMAN: Is it not a fact that most of those projects were started in a comparatively small way as pulp propositions, and then they found they could not get a market for their pulp and they had to go on and manufacture it further or stop. I know that was exactly the case in the paper business.

By Mr. Howard:

Q. In spite of that, there is one thing that sticks with me in regard to the Anticosti proposition, and that is who in the devil made the figures of the cost of the wood, because he must have been off on his figures?—A. You know there was quite a joke on that; they called it "Ain't it costly". That was a joke along the whole St. Lawrence; but you know perfectly well that one cannot give credence to all the stories one hears.

Q. Oh, no; but still the facts shown to-night show that the cost was wrong?—A. The cost was double.

Mr. POWER: I do not want to pose as a prophet, but in 1928 I made a speech in the House on Anticosti and I said you would never get out of it.

Mr. FRASER (*Northumberland*): What year did you buy Anticosti?

The WITNESS: It was in 1926, was it not?

The CHAIRMAN: August, 1926.

By Mr. Fraser (Northumberland):

Q. Why did you buy a proposition figured at $14 wood when you were buying wood on the mainland at $7?—A. The reason we did it was we did not think we had enough wood on the mainland to take care of our mill, and the other one was we did not feel, and we do not feel yet that it was always going to cost us $14, and when you start a new operation it is necessarily costly. If we had considered it in a quieter way we would have been wiser.

[Mr. C. R. Whitehead]

Q. Would you and your associates have purchased Anticosti, even to be divided as you have explained to-night, if you had not known or had not felt that you could finance it with public money?—A. I do not think that entered very much into our minds.

The CHAIRMAN: They were leaving that to Mr. Gundy.

The WITNESS: To tell you our own feeling, if we didn't take a cord of wood off at all we thought we were perfectly able to pay our shot, and we would; we were perfectly able to pay our share without any difficulty.

By Mr. Fraser:

Q. What security did you deposit with the Bank of Montreal when you borrowed $6,000,000 temporarily with which to pay the French owner of Anticosti?

The CHAIRMAN: Mr. Wilson covered all that before you came in.

Mr. FRASER: He did not cover it satisfactorily to me.

By Mr. Fraser:

Q. My next question is this: listening to this discussion the question arises in my mind would it have been possible—and perhaps you can answer this—when purchasing Anticosti, to have borrowed the money from the bank, to have underwritten it with the brokers, if you all had known it was possible at that time to sell the securities to the public?—A. I don't just follow that.

Q. I will put my thoughts in more direct language then, and this seems to me to be the crux of the situation. The purchase of Anticosti was based on a misconception, as you have said yourself a minute ago, as far as the pulp and paper is concerned, and, in my opinion, was a false analysis; the whole situation as you should have seen as pulp and paper men, was based on the possibility of, first, obtaining a loan from the Bank of Montreal on security that the chairman said he would ask Mr. Wilson to explain again, which last was based I suppose on the known ability of the broker to sell those securities to the public. Now, you have got three lines there, one on your own statement a misconception of the pulp and paper basis; a wrong analysis by the leaders of industry in that particular line; and number two, the position of the Bank of Montreal in the loan of the $6,000,000 based absolutely on their decided ability of the broker or the financial house to sell those securities to the public. Now, a clear-cut analysis of the situation is that on the misconception of yourself and your associates, the willingness of the Bank of Montreal to loan the money, the ability of the salesmen to go and sell the securities to the public, lost the public of this country $9,000,000 in connection with the investment.—A. I have just been trying to explain it. I do not think it was a misconception. In fact, I think they were justified in doing as they did. I said the picture to-day had changed, but at the time they did these things I think the picture justified it.

Q. I disagree with you in your statement. You sit there as a witness and make the statement that your hindsight is better than your foresight; you should have known as pulp and paper men, you should have known from the standpoint of men experienced in the business of the future possibilities, that it was an absolutely erroneous or mistaken policy, as you now admit; you go to the Bank of Montreal and borrow $6.000,000 based on the fact that they knew that these securities could be underwritten to the public. The investing public of Canada, perhaps not under high pressure salesmanship but under persuasive powers would or should have been saved by the leaders of industry and finance in this country, but to begin with there was a misconception resulting in a loss of $9,000,000 to the public. Am I right or wrong?

The CHAIRMAN: Mr. Wilson will re-explain, if you desire.

[Mr. C. R. Whitehead]

Mr. GEARY: Mr. Fraser speaks of the Bank of Montreal.

The CHAIRMAN: It was the Royal Bank.

Mr. WILSON: I suggest that the gentleman who is just speaking, in so far as the bank is concerned, has the cart before the horse, and I vigorously protest the suggestion that we unloaded $9,000,000 or 9,000,000 cents worth of securities on the public. We have never at any time sold those securities or any other securities to the public.

Mr. FRASER (*Northumberland*): I did not say that.

Mr. WILSON: You said we had a joint responsibility.

Mr. FRASER: I said you had a triple responsibility.

Mr. WILSON: I deny that. We made this loan in the ordinary course of business.

The CHAIRMAN: Purely a banking transaction, as far as I understand it.

Mr. WILSON: The three companies were in first-class credit; they were very prosperous; the prices at which their shares were selling on the market indicate that too. We made that loan in the ordinary course of business, and after we had satisfied ourselves that the securities had been underwritten and sold. My memory is refreshed by the representative of Wood, Gundy, who said they were sold and delivered in ten days. I submit that was a perfectly good banking transaction. We haven't any responsibility.

By Mr. Geary:

Q. This is a prospectus to the sale of $3,000,000 sinking fund accumulated preference shares, and it carries the date in writing, August 6th, 1926. That was subsequent to the sale of bonds to the extent of $6,000,000, was it not?—A. Is that the Wayagamack?

Q. No, Anticosti.

The CHAIRMAN: Which came first?

The WITNESS: The bonds and the preferred went at the same time.

By Mr. Geary:

Q. I have not got the prospectus, but the security was the sum of $3,000,000 as the loan on Anticosti?—A. Yes.

Q. But more particularly added to that the contract with the three companies?—A. Yes.

Q. That was the security for it?—A. Yes.

Q. This prospectus does not mention the price you paid for Anticosti. Did the prospectus for the sale of bonds mention the price you were paying for Anticosti?—A. I cannot tell you, I don't remember.

Q. This prospectus does not mention that you secured at least half this amount to pay for Anticosti. Did the prospectus for the sale of bonds indicate the amount required to pay for the Island.

The CHAIRMAN: He cannot be expected to remember that.

Mr. GEARY: I would just like to know. As far as I can see, the $9,000,000 was got from the public here to pay seven and a half million dollars on the strength of the contract that has been criticized as to price, but there is no mention in this prospectus, and I take it that there is none in the other prospectus of the object of getting the money, that is, you did not own Anticosti outright, you still had to pay something, and this money was required to pay for it; there is nothing said about this price of seven and a half millions which you had to pay.

The CHAIRMAN: The cost price?

Mr. GEARY: The cost price.

The CHAIRMAN: The prospectus speaks for itself.

[Mr. C. R. Whitehead]

Mr. Geary: I mean to say, I think that is the fact.

The Chairman: Are there any other questions to ask of Mr. Whitehead. If not, I would like to recall Mr. McKee and Mr. Chahoon just for a moment.

By the Chairman:

Q. Mr. Whitehead, were there any commissions paid in connection with the merger into Canada Power and Paper to anyone?—A. No sir, not a cent.

Q. To any bond house?—A. No.

Q. Or to any of the companies?—A. No, sir.

Q. Directly or indirectly?—A. No, sir, not in any shape, form or manner.

Q. It was a pure exchange of security for security, and securities for securities?—A. Yes.

By Mr. Geary:

Q. Were the $3,000,000 preferred shares issued under writ?—A. Yes.

Q. And Wood, Gundy underwrote the $6,000,000 bond issue too?—A. Yes.

Q. They underwrote those and took the responsibility for the sale of this $9,000,000 and sold them to the public?—A. And we all bought them, yes.

Witness discharged.

G. M. McKee, recalled.

By the Chairman:

Q. Mr. McKee, I would like to ask you if at any time during all your connection with the Port Alfred any Canadian chartered bank loaned you money to buy timber limits, or to build mills, or to buy machines, or for any other capital expenditure?—A. Not unless it was just for a very short period when the bonds were being distributed.

Q. While you were getting ready to sell your bonds, to borrow from the public; did the banks at any time ever urge you to extend the business of Port Alfred?—A. No.

Q. What did you have from the banks?—A. Nothing more than ordinary working requirements.

Q. At Port Alfred?—A. No, nothing more than ordinary working capital requirements.

Q. Do you remember the volume of your loans?—A. They were very reasonable. We had a line of credit.

Q. A maximum line of credit?—A. Yes, a maximum line of credit.

Q. Repayable how?—A. It was a continuous loan.

Q. Did you never clean it up?—A. I don't think it was ever wiped out.

Q. A section 88 advance?—A. Section 88.

Q. Against inventory?—A. Yes, and these inventories we had to file from time to time.

The Chairman: That is all.

Mr. Hackett: I suppose they had to pledge the bonds for the temporary advance.

Witness discharged.

The Chairman: I would like to ask the same questions of Mr. Chahoon.

George Chahoon, Jr., recalled.

By the Chairman:

Q. Mr. Chahoon, during the period when you were the head of the Laurentide, did you ever have from the banks a loan or loans for the purpose of capital expenditure—time loans I mean?—A. No, never.

Q. You were able to finance yourself?—A. We never financed.

[Mr. Geo. M. McKee]
[Mr. Geo. Chahoon, Jr.]

Q. You never financed?—A. No.

Q. You did it out of earnings, according to what you have told us?—A. Yes.

Q. Was there ever any pressure on the part of the banks to expand your capital expenditure? Did they have anything to do with that aspect of your business?—A. No.

Q. And they were not consulted?—A. Not any more than we could help.

By Mr. Power:

Q. Will you tell us why you did not like to consult the banks, what is wrong with them?—A. We owed them too much money.

Q. You owed them too much money?—A. Yes, the same reason that you don't probably.

By the Chairman:

Q. I am speaking of Laurentide, when Laurentide was going good did you have a general line of credit?—A. Yes, sir.

Q. For what purpose?—A. For the operating of our property.

Q. That is, for working capital?—A. For working capital, and I "hunched" a little.

Q. Just what do you mean by that?—A. Well, I mean just exactly that.

Q. Well, that is a Yankee expression, I am not sure that it is clear to the committee; just what do you mean?—A. Well, I mean that we were getting along very quietly and very nicely, and once in a while when we had to put in some additions we would go along until the Bank of Montreal would say: Come on down and talk it over; and then we paid it back.

Q. You would then take part of your bank loan for capital expenditure?—A. For a very short period.

The CHAIRMAN: All right, that is all. (Witness discharged.)

Mr. HACKETT: When the bank caught them they were called.

The CHAIRMAN: Gentlemen, I understand that is all the evidence we have to-night, and we will adjourn until to-morrow in Montreal, at what time?

Mr. POWER: We arrive there at a quarter to ten.

The CHAIRMAN: What hour will be convenient, Mr. Wilson.

Mr. WILSON: Well, I telephoned Montreal and I suggested eleven o'clock subject to your approval.

The CHAIRMAN: Very good. The general committee will meet next Tuesday at ten o'clock to take up Bill No. 19 and the Quebec Savings Banks Act, if we reach it. The sub-committee will meet in Montreal to-morrow, at the Power Building, Craig street, at 11 a.m.

The committee adjourned at 9.45 p.m., to resume on Tuesday, May 29, at 10 a.m.

N.B.—The following memorandum signed by the Secretary of Consolidated Paper Corporation was received. It elaborates certain answers given in evidence by Mr. Gundy and Mr. Chahoon:

MEMO RE: TRANSCRIPTION OF EVIDENCE BEFORE BANKING COMMITTEE ON MAY 22, 1934

Mr. Gundy's Evidence: (p. 795)

On a question of Irvine to Mr. Gundy "how many were present at the meeting of shareholders when they discussed on this matter" Mr. Gundy answered "I do not know, I am not sure that I was there myself". This is apt to be misleading. Offers of exchange made by Canada Power & Paper Corporation to St. Maurice Valley Corporation, Laurentide Company Limited, Port Alfred Pulp & Paper Corporation, Wayagamack Pulp & Paper Company Limited and Anglo Canadian Paper Mills Limited, were not the subject matter of a shareholders meeting of those particular companies. The offer was an individual one, that is to say, to each shareholder of the old companies, Canada Power & Paper made an offer of exchange for their securities for securities of Canada Power. The shareholder made up his own mind whether he would accept or not and could not of course be coerced or forced to decide by any legal procedure. In other words the offer of exchange was made to the individual shareholder and not to the company. The offer of exchange, however, was discussed by the directors who declared themselves to be in favour of it personally and recommended it to all shareholders that they accept it.

Evidence that the individual shareholders favoured the exchange is proved by the following figures:—

Laurentide issued 288,000 shares; all were exchanged.

St. Maurice Valley, 160,000 shares issued, all but 103 shares exchanged.

Port Alfred Pulp & Paper, 120,000 shares issued; all but 383 shares exchanged.

Wayagamack Pulp & Paper Company, 133,333 shares issued; all but 57 exchanged.

As Anglo Canadian was returned to the original owners, I have not the exchange figures at the moment but the ratio was similar to those above.

Mr. Chahoon's Evidence: (p. 823)

In Mr. Chahoon's evidence on a question by Mr. Power "the debentures were not secured in any way," to which Mr. Chahoon answered "yes," the Laurentide Issue and Mr. Power again questioned "that is only a name they were unsecured debentures," to which Mr. Chahoon answered "yes." This is not a statement of the facts. The Canada Power Debentures were secured and under the Trust Deed there was pledged all of the common shares of Laurentide Company Limited and St. Maurice Valley Corporation Limited owned by Canada Power and Paper Corporation. When the Wayagamack exchange was offered and a further issue of Wayagamack Series Debentures were issued, all of the common shares of Wayagamack owned by Canada Power were also pledged under the Trust Deed securing the Debentures.

In addition to the shares mentioned there was pledged a Freehold Timber Limit. There is also a similar reference to no Security for Debentures later on.

CONSOLIDATED PAPER CORPORATION LIMITED,
G. WILFRED HODGSON, *Secretary.*

MINUTES OF EVIDENCE

(Taken by Sub-Committee)

POWER BUILDING,
MONTREAL, May 23, 1934.

The CHAIRMAN: Gentlemen, this is a small sub-committee of the Select Standing Committee on Banking and Commerce of the House of Commons, which has come down here to take the testimony of Sir Herbert Holt with respect to certain topics under investigation by the committee at the present session of Parliament. Without further preliminary, I would suggest that Mr. Power open the investigation.

Mr. POWER: Perhaps I had better explain, in so far as I was personally concerned, I thought it advisable and that it would expedite this hearing, if I forwarded to Sir Herbert Holt a questionnaire covering some of the matters on which we required information from him.

Sir Herbert, I understand, has answers prepared to this questionnaire. This was only my personal idea; it is not binding on all the members, nor is it binding on me, if something should transpire during the course of the inquiry.

Sir HERBERT S. HOLT, K.B., called.

By Mr. Power:

Q. On the questionnaire, the first question is: what is the connection, if any, between the Royal Bank of Canada and the Montreal Trust Company?—A. None whatever.

The CHAIRMAN: Would you prefer to have Mr. Wilson read the answers for you?

The WITNESS: If he would. The connection between the Montreal Trust Company and the Royal Bank of Canada was fully explained by Mr. Wilson before your committee at Ottawa. The bank has no financial interest whatever in the Montreal Trust Company. A minority of the board of the Montreal Trust Company are directors of the bank. I am president of both institutions, but their managements are entirely separate and their interests do not conflict in any way.

Q. Now Mr. Wilson, perhaps you will answer this question. You have already answered it. How many directors are there on the Montreal Trust Company who are also directors of the Royal Bank?

The CHAIRMAN: That is already in the minutes.

The WITNESS: Eleven.

Mr. WILSON: A minority, I know. The Royal Bank has eleven out of twenty-five directors.

Mr. POWER: Eleven out of twenty-five?

Mr. WILSON: Do not hold me to the exact figures. It is a minority.

Mr. POWER: Mr. Wilson, can you answer this: Have you readily available what are the assets of the Montreal Trust Company?

Mr. WILSON: No, but I could get them.

The CHAIRMAN: They can get their balance sheet.

Mr. WILSON: Yes. Would you like to see it?

The CHAIRMAN: It is public?

Mr. WILSON: It is a public company.

The CHAIRMAN: We would like the balance sheet filed. (Sec Appendix AK.).

Mr. POWER: What is the amount of the trust funds and other funds which the Montreal Trust Company handles?

The WITNESS: That is all in the report.

Mr. WILSON: That will be disclosed by the balance sheet.

The CHAIRMAN: Do you want to cross examine on the balance sheet?

Mr. POWER: I may later on.

By Mr. Power:

Q. Sir Herbert, you are a director of certain corporations, institutions and partnerships, as appears from memorandum filed with the clerk of the committee on banking and commerce, on page 990 of the Minutes of the Proceedings and Evidence. On December 1, 1926, what was the aggregate amount in which these corporations, etc., were indebted to the Royal Bank of Canada. On December 1, 1927, what was the aggregate amount in which these corporations, etc., were indebted to the Royal Bank of Canada? On December 1, 1928, what was the aggregate amount in which these corporations, etc., were indebted to the Royal Bank of Canada? On December 1, 1929, what was the aggregate amount in which these corporations, etc., were indebted to the Royal Bank of Canada? On December 31, 1933, what was the aggregate amount in which these corporations, etc., were indebted to the Royal Bank of Canada?—A. There has not been sufficient time for the bank to compile the required information for the earlier years mentioned, but the data for 1933 is before me. It shows that 28 of the corporations of which I am a director have on deposit with the Royal Bank of Canada, on December 31, 1933, over $28,000,000. Only 6 of the corporations were borrowers, and excluding our share of the loan to the Canadian Pacific Railway, guaranteed by the Dominion of Canada, the combined advances of these corporations were $2,090,255, all fully secured.

Q. You have not been able to get that for the previous years?—A. I have not been able to get that, but I will, and then I will send it in to you.

The CHAIRMAN: For the previous years?

The WITNESS: 1926, 1927, 1928, and 1929.

By Mr. Power:

Q. I was asking on December 1, 1926, what was the aggregate amount in which these corporations were indebted to the Royal Bank of Canada?—A. I am getting that.

Q. I should like to have December 1, 1927, 1928, and 1929?—A. That is being prepared, and we will send it along—how shall we do it, file it as a report?

The CHAIRMAN: File it as a return to an order of the Committee.

Mr. POWER: So that in the last—

Mr. WILSON: You remember you added that. There was a misunderstanding between us. I had only the one date on the questionnaire I brought down over the week end.

By Mr. Power:

Q. So that in the last fiscal year the amount owed to the bank by corporations in which Sir Herbert is connected as an officer, or as a director—I presume that is as officer—A. Yes, officer or director.

[Sir Herbert S. Holt]

Q. —was $2,090,255?—A. As I mentioned, that is apart from the C.P.R. loan, which of course, is a government transaction. These same corporations, the group of them, had $28,000,000 on deposit on the same day.

The CHAIRMAN: Then, in that connection, may I ask if the relative ratio of deposits and loans would bear some resemblance to that.

The WITNESS: I cannot tell. I would not like to make a statement, but I shall probably have the figures in the next 24 hours—you will have them when you get back to Ottawa. In this connection I might state that in the 25 years that I have been president of the bank I have personally made it a rule never to borrow from the bank, either directly or indirectly, or, for that matter, from any other bank.

By Mr. Coote:

Q. May I ask Mr. Wilson this question: Was it not stated in the committee yesterday that the pulp and paper companies, the Canada Power and Paper Company, were indebted to the Royal Bank to the extent of $8,000,000?

Mr. WILSON: Yes.

The WITNESS: I am not an officer now.

The CHAIRMAN: He is not an officer now.

Mr. COOTE: I thought Sir Herbert Holt was a director?

The WITNESS: I was.

Mr. COOTE: I misunderstood the question.

Mr. WILSON: This is not an answer to the question. It is just a statement

Mr. POWER: What Mr. Coote is getting at is this: The amount which was owed to the Royal Bank by these corporations at the end of the year 1933, was $2,090,255, and Mr. Coote was under the impression that Sir Herbert Holt was a director of Consolidated, which has now taken the place of Canada Power and Paper, and he wondered if that came in with the $8,000,000?

The WITNESS: No.

Mr. COOTE: I understood that someone told us yesterday that Sir Herbert Holt was a director?

Mr. WILSON: He had been.

The CHAIRMAN: But not of Consolidated?

Mr. WILSON: Sir Herbert was Chairman of the Board of Canada Power and Paper, the one company, the one branch, St. Maurice and Belgo, until they took in Laurentide. When Laurentide came in, the Laurentide crowd took charge, and Mr. Chahoon, who was before the committee yesterday, became president.

Mr. POWER: Sir Herbert remained a director until such time as Consolidated was formed?

Mr. WILSON: Yes, until it was reorganized, and then he retired.

Mr. COOTE: I understood yesterday he was a director?

Mr. WILSON: No, that is a misunderstanding. I might mention incidentally, of this $2,090,255, which these corporations, of which Sir Herbert Holt is a director, have borrowed from the bank, at the end of the year, $1,500,000 was for the Dominion Steel and Coal Corporation, which is, as you know, the biggest enterprise in Nova Scotia, the account of which is divided between the three big banks. The point of it being that the majority of these corporations were not borrowers at all. It left only half a million dollars for the other thirty odd corporations.

By Mr. Power:

Q. What salaries, fees, or honoraria did Sir Herbert Holt receive from these companies in which he was a director—

[Sir Herbert S. Holt]

The CHAIRMAN: Mr. Power, do you think that you ought to ask that? That question has not been asked of any other bank man yet.

Mr. POWER: No?

The CHAIRMAN: Mr. Wilson apparently volunteered Sir Herbert's salary as president of the Royal Bank.

Mr. WILSON: It just came out naturally.

The CHAIRMAN: I have an idea that this is a personal matter, which does not affect the financial situation of the country or its borrowings.

Mr. POWER: It might, to this extent: There has been a pretty general complaint throughout the country that owing to Sir Herbert Holt's position, and might I say that of Sir Charles Gordon too, they have an advantage over the rest of the ordinary mortals of this country that owing to their positions on board, etc., they are in a position to be able to earn perhaps better salaries—

The CHAIRMAN: In the first place, I should like to observe that we did not ask Sir Charles Gordon that question.

Mr. POWER: No, I forgot.

The CHAIRMAN: If you had asked Sir Charles Gordon that question and the principle had been decided, you would be in a position to justify the proceeding here, with respect to Sir Herbert Holt; but not having asked that, it does seem to me invidious that you should now ask that question.

Mr. POWER: As a matter of fact, I had intended or had thought of asking Sir Charles Gordon that question.

The WITNESS: Mr. Power, in connection with these paper companies, I never received a cent of remuneration as an officer, president or chairman. I received, for a limited time, $20 a meeting, from some of these companies, but nothing for others.

Mr. WILSON: Director's fees?

The WITNESS: Director's fees.

Mr. POWER: You see, in the other inquiry, that is going on in the House, a great many questions were asked of the Imperial Tobacco Company and other companies.

The CHAIRMAN: That was quite a different situation. Suppose you asked to-day, what was Sir Herbert Holt's salary as president or executive chief of the Montreal Power, do you think it would be relevant here? They are not borrowers from any of the banks, so far as I know.

Mr. WILSON: No.

The WITNESS: No.

The CHAIRMAN: Not only are they not borrowers, they are large depositors; therefore you are running into the realm of purely private business, which is outside the scope of our investigation.

Mr. COOTE: I think it is clearly tied up with the question of interlocking directorates, and is a question that is being raised very frequently, I might say, by the general public.

Mr. POWER: Personally, I believe it would be in the interests of everybody if this question were answered.

The CHAIRMAN: I am sorry. We do not often disagree—

Mr. POWER: No.

The CHAIRMAN: The questions have been pretty wide open, but I do suggest to you that it is not fair, first of all, to ask Sir Herbert Holt this question when Sir Charles Gordon was not asked the question.

Mr. POWER: I have no objection to asking Sir Charles Gordon. We can send him a questionnaire.

The CHAIRMAN: Secondly, I would not think there was any objection to asking Sir Herbert Holt what his relation was with the pulp and paper companies, or the Royal Bank, in this connection.

Mr. WILSON: You have that.

The CHAIRMAN: We know that. It is now disclosed, but he objects, as I understand it, to disclosing his emoluments from other companies which are not in this picture at all.

Mr. COOTE: How is the question worded?

The CHAIRMAN: What salaries, fees, or honoraria did he receive from these companies. What companies?

Mr. POWER: The companies of which he is director.

The CHAIRMAN: The borrowing companies?

Mr. POWER: Any company of which he is a director, and which were mentioned.

The CHAIRMAN: That would cover the whole field.

Mr. POWER: The companies which were mentioned in the report of the proceedings of this committee.

The CHAIRMAN: You mean the whole list of directors? That covers the whole field. Do you think it would really be in the public interest to have it come out? We are not investigating the Montreal Light, Heat and Power Company, or the Canadian Pacific.

Mr. POWER: We are investigating the whole question of interlocking directorates, which to my mind is far more important, perhaps, than this question of pulp and paper.

The CHAIRMAN: I thought the primary object of this was the pulp and paper situation.

Mr. POWER: No. We were not able to have Sir Herbert Holt at the time we were discusing interlocking directorates. It was suggested we should come down here to see him.

The CHAIRMAN: I would not think it would be relevant however.

Mr. POWER: I am quite willing to do this: I am quite willing to take the aggregate amount he receives from all those companies, without specifying the amount he receives from any one company or any particular company.

The CHAIRMAN: You are pressing that question, are you?

Mr. POWER: I am quite willing also to ask Sir Charles Gordon that, if we can get it.

Mr. WILSON: Had I not better read Sir Herbert Holt's reply.

Mr. POWER: Certainly. The question is: What salaries, fees or honoraria did Sir Herbert Holt receive from these companies: (*a*) During the year 1929; (*b*) during the year 1933?

WITNESS: I do not think I should be required to answer this question. No other witness has been asked to disclose his personal income, and I do not see why I should be treated differently.

Mr. POWER: Quite. I would do away with the objection that Sir Herbert makes by suggesting we ask Sir Charles Gordon that question. I am quite willing to ask him, and Sir Charles is the only other bank president we have interviewed.

[Sir Herbert S. Holt]

WITNESS: The only thing I object to is this: first, there is a bad principle. You have had an example of it down at Washington. I can tell you you will be surprised at the small amount I receive.

Mr. POWER: I have no doubt I will.

WITNESS: Sure.

Mr. POWER: And possibly the public will be, and it will be all to the good.

WITNESS: No. It is not a fair question to ask, not a fair question to ask.

Mr. POWER: Do I understand that you do not want to answer the question?

WITNESS: Well, there is my reply.

The CHAIRMAN: The effect of it is that he declines to answer. I do not think we can do anything more about it.

Mr. POWER: I do not think we can insist upon it here; but we can discuss it in the sub-committee, I suppose.

By Mr. Power:

Q. Sir Herbert, it has been shown in this inquiry and elsewhere, that a very few men, through the system of interlocking directorates and their position on the board of banks, trust companies, and other financial institutions, control to a great extent the financial credit system of Canada. Is this in the interest of the country?—A. I do not agree that control of the credit system of Canada is in the hands of a very few men. My experience is that directors and executive officers of the banks and trust companies guard very jealously the welfare of their particular institutions, and the keen competition that exists between the various financial institutions creates a healthy situation and one unquestionably in the interests of the country.

Q. If this power or influence were in the hands of persons who would use it to forward their own personal interests, would it be to the disadvantage of the country generally?—A. Undoubtedly it would be to the disadvantage of the country generally if persons in positions of trust or power used such positions to promote their personal interests. This applies not only to bank directors, but to public men and to others in different walks of life. Fortunately, a high standard in this respect has been set in Canada, and, in the main, I believe it has been maintained.

Q. Perhaps this is a question you will answer, Mr. Wilson, it is a question similar to that which I have asked Mr. Logan and Sir Charles Gordon. What is to prevent men who are absolutely self-seeking from getting into the position of power and influence in the financial world, in which men like Sir Herbert Holt and Sir Charles Gordon are at the present time?

Mr. WILSON: The same reason that would exclude an undesirable man from a high-class club. The other members would not associate with him.

The CHAIRMAN: Would you say it would be possible for a man to get control of a sufficient quantity of shares of the Royal Bank, an undesirable man?

Mr. WILSON: I think it is quite impossible, quite impossible. I cannot imagine such a thing, because it is too big; and if an undesirable did get control by buying shares in the open market, the probability is, by the time he got in the saddle he would find there was nothing but a shell, because it would be well known what was going on and the public would have lost confidence in the bank, and, as I say, when he arrived in control, why, he would find things had disappeared.

The CHAIRMAN: The same would be true of an insurance or trust company?

The WITNESS: Absolutely.

Mr. WILSON: The same thing applies. I think the principal reason is that when a vacancy—Sir Charles Gordon elaborated the point quite fully under

[Sir Herbert S. Holt]

your questioning, Major Power—when a vacancy occurs on the board of a bank, the remaining directors are very careful in the selection of a successor for obvious reasons.

Mr. Power: I do not want to repeat too much but I called Sir Charles Gordon's attention to the case of the National City Bank and other large American institutions. The National City Bank enjoyed quite as high a reputation in the financial world and elsewhere as any Canadian bank, did it not?

The Witness: I will answer that.

The Chairman: He had not quite completed his question.

Mr. Power: Yet certain persons obtained, if not absolute control, at least a preponderate influence in the control of this bank, and it would appear from the newspaper reports, that that influence was not for the good of the country where it was operating; is that so?

The Witness: You want me to answer that, Major?

Mr. Power: Certainly, sir.

The Witness: It has been brought about by the difference between the Canadian banking and the American banking. Canadian banking has been conducted for years on the Scottish system. Men like Mr. Wilson or the late Mr. Neill make it their career; they thoroughly understand banking and they would be the first person to report it. Now, it is altogether different with the National City Bank. They were not bankers. Mr. Mitchell was never a banker; he was a salesman. That was the trouble about it. He was a supersalesman. He went into those things—

Mr. Power: That would bring me back to the suggestions which were made, I think, to Mr. Logan, that perhaps in the interests of banking generally, and in the public interest of Canada, it would be better if the board of directors of banks were composed of men who were bankers and nothing else.

The Witness: Well—

The Chairman: Is not that based on the assumption that boards of directors are active executive officers of the banks, which is not the case under our system?

The Witness: No. Who would bring the business to the bank? When I joined the Royal Bank it was a bank of $48,000,000 of assets.

Mr. Wilson: Less than that.

The Witness: Who would bring the business to the bank? What do the five great banks of England do? How do they choose their directors? They are interlocking ten times as much as the directors of the banks of this country are.

By Mr. Power:

Q. I quite understand. I know it is true they have this system of interlocking directorates, but to my mind that does not better the system at all?—A. It shows, Major, that English banks have stood through the stresses of all descriptions as against the American banks. The Macmillan report shows what our Canadian banks have stood through, and I think it would be a very injudicious thing for any member of parliament, or the public, to question the stability or suggest there is anything wrong with the management of the Canadian banks.

Mr. Coote: We are trying to get information, Sir Herbert.

The Witness: I will give you all the information you want.

Mr. Coote: On this point, what benefit is it to the Canadian public, if there is any benefit, to have the power over finances concentrated in the hands of a very few men?

[Sir Herbert S. Holt]

The WITNESS: It is not. I absolutely deny that a few men have that power.

The CHAIRMAN: Your premise is not acceded to. You will have to establish that.

Mr. WILSON: If I may interject there, we disagree on this point. It is not a new argument for me, because I have elaborated it many times in the last few months. You look at the body of bank directors as a whole, and you regard them as one group who think alike and who act together.

Mr. POWER: A club, you said, don't forget.

Mr. WILSON: No; I am speaking of the board of a bank, I am not speaking of the board of directors as a whole. There is no club there, but there is in a bank in the sense which you understand. But those boards are separate. What connection for instance, is there between the board of the Royal Bank and say, The Canadian Bank of Commerce, or the Bank of Montreal? Personally, we are friendly, but in a business way we are the keenest competitors. I do not think that you would get the Bank of Montreal to agree that before they do things they come around to consult Sir Herbert or me or any other director of the Royal Bank, and I state definitely we reciprocate in the same manner; we run our own show. We do not consult them. If there is any force in my argument I think it tends to weaken your theory of this money power, because on your theory if it has any basis at all, it is predicated on the fact that this group of bank directors just act as a unit, that everything is concentrated there.

Mr. POWER: Mr. Wilson, should some sudden emergency arise in this country where it was considered desirable for the money power to act as a unit, would it not be extremely easy for that to be brought about?

Mr. WILSON: In an emergency, I take it what would happen in the future is, what has happened in the past. We would be called to Ottawa—

The CHAIRMAN: The same as in 1914?

Mr. WILSON: Yes. We would be called to Ottawa to discuss the situation with the Prime Minister or the Minister of Finance, and perhaps other members of his cabinet. It is an emergency, and naturally we want to consult together and get the benefit of the best brains in the financial community at least.

Mr. POWER: I suggest if that could be done in an emergency, it could also be done when the personal interests or the bank interests or the corporation interests of the bank directors, in their minds demanded similar action.

Mr. WILSON: Yes, I quite agree it could be done, but my point is it is not done.

Mr. POWER: We will perhaps agree on that. We won't discuss that, because I am sure I do not know whether it is or not, and Mr. Coote does not.

Mr. WILSON: The difference is, you are speaking of what, to you, is an academic problem, and I am speaking from my experience. I can only tell you what I see happening from day to day.

Mr. POWER: With me it is a question of possibility and feasibility of a small board of directors composed only of men who had banking experience or of men who were not in any way attached to or connected with industrial or commercial concerns, or financial institutions—it is a possibility which I can visualize, and according to Mr. Logan it would be efficient, and it would give good service to the public.

Mr. WILSON: I remember very well when you asked Mr. Logan that question, and I was very much intrigued myself, and what immediately flashed through my mind first, was, would not a general manager of the bank have a fine time? He has got no control at all. If I were general manager of a bank set up that way, I would be the absolute supreme boss. Now, although I am a director of the bank, there are 24 other directors on the board to put me out

[Sir Herbert S. Holt]

at any time, and I must justify my actions to them. But the main point, as Sir Herbert Holt points out, is that the directors are of value to the bank because they bring business to the bank, because they are intimately in touch with the various lines of industry throughout the country, and their advice and counsel is being sought by the management of the bank, and it is available to the managers of the bank at all times. That is where their value is. And these directors are, along with myself and Mr. Noble, and the other executive officers of our bank—

Mr. POWER: Let us analyse this. First of all, you said the principal reason for having directors connected with other corporations is, that they bring business to the bank.

Mr. WILSON: Yes.

Mr. POWER: Mr. Dodds put that as being the last one of the considerations.

Mr. WILSON: Well, Major, I am not writing a thesis. I am not trying to put it the way I might write it; I am thinking out loud, now.

Mr. POWER: That is of interest to the bank, but not of so much interest to the general public.

Mr. WILSON: It is of great interest to the shareholders of the bank.

Mr. POWER: Yes, and to the bank as a corporation.

Mr. WILSON: We must not overlook this: the shareholders of the bank are in the banking business to make money, and they elect from their number a certain group to run the bank just the same as the shareholders of any corporation do, and they elect—I know what you are going to say to me now, they do not elect—but they elect from their number those who they think can best promote the welfare of the bank.

Mr. POWER: I won't even say to you they do not elect, because it is already on the record.

The CHAIRMAN: The theory of the law is they do, and the practice is, they give proxies to the present management as long as they have confidence in them.

Mr. WILSON: There is the point. They give it as long as they have the confidence, and the minute they lose confidence, the thing is gone.

Mr. POWER: The next point you raise is, a difficult situation would be created, since other bankers would be on the board, and that would leave the general manager practically in control.

Mr. WILSON: That is what I would fear. I say that being a general manager myself, because I regard it of tremendous value—you get these other men to sit around and discuss problems—

Mr. POWER: I asked Mr. Logan if it would not be possible to choose directors from the local managers or the provincial managers, or the inspectors of his own bank? Don't you think the scheme could be worked out without necessarily being obliged to take some of your own subordinates, and even if you did take some of your own subordinates, you know that it sometimes happens that the young man who is brought in becomes your boss.

Mr. WILSON: Let us pursue that. They must either be pensioners, that is, men who are receiving a pension from the bank, having reached the age when they are entitled to it, therefore they must be men who have been associated with me, say, for the best part of their lives, and seeing they are in receipt of a pension from the bank, they are under an obligation to the bank management —you cannot get away from that,— That might be one class from which you would draw those men, or you would be drawing from men who are junior to me now, for instance, a man like Mr. Noble, with all the brains necessary to be a bank director, but you cannot get away from the fact that I would feel that

Mr. Noble would follow my judgment. Perhaps I am wrong, perhaps when he got in the saddle alongside of me he might become obstreperous.

The CHAIRMAN: Is there not a further point there? By the time a junior officer of the bank became a director, would there not be incompatability between the two positions?

The WITNESS: The thing is unworkable.

Mr. WILSON: The general manager, if he so wanted, could pick all his fellow workers in the bank, men he knew he could work with, men he knew that he could dominate in an emergency. Now, I submit that is not the sort of men to get on the bank board. You want men who will sit up and talk to you.

Mr. POWER: I think the inferiority complex of a poor devil who goes in to borrow money from you is far worse than the inferiority complex in the rank in the bank, and it very often happens that somebody through luck or good investments or wise administration of his own business, who had been in the position of that poor borrower at one time, in a few years becomes one of your directors. He is in pretty much the same position as your subordinate officer, is not he?

Mr. WILSON: Well, I do not get that.

Mr. POWER: He has got a grudge against you for not loaning him the money when he wanted to get it.

The WITNESS: Does it not resolve itself into this: The bank is a commercial institution, like any other, probably a business merchant. The shareholders of the bank are the people who elect the directors that are going to look after their business. Do you think I, as a shareholder, or you as a shareholder, if it was confined to such a board as you suggest, would be shareholders of the bank? I certainly would not.

Mr. POWER: I confess sir, that is the strongest argument I have heard yet; but in these days of regulation of trade and everything of that kind, I can quite conceive that it would be possible to work out something along those lines, even if you had to have a portion or if you elected all the shareholders, who, as a matter of fact, do not elect the board anyway, but a portion of them, elected by the shareholders, and the remaining portion selected in some way through a panel by the shareholders or in some other fashion. I think it could be worked out, and I am more or less convinced it will be worked out eventually.

Mr. WILSON: I do not want to pursue the thing any further. Tell me conscientiously, what would be gained by that? That is what I am not clear on, notwithstanding I recall very distinctly what you said at Ottawa a few weeks ago.

Mr. POWER: What would be gained?

Mr. WILSON: Would these ex-bankers be more sympathetic? Is that the idea?

Mr. POWER: To the public?

Mr. WILSON: Yes.

Mr. POWER: No, less, probably.

Mr. WILSON: Less?

Mr. POWER: Probably. I am not one of those, and I have already so stated, who complain that the banks do not give enough credit.

Mr. WILSON: No, I have not heard you say that.

Mr. POWER: I believe in many instances our banks have given too much credit. I think a bank should be run without very much human sympathy; it should be run as strictly commercial banking institution, and I believe that there would be less of the sentiment throughout the country that there is favouritism,

if the directors of the bank had nothing whatsoever to do with any other corporation or institution. It is a matter of argument, and I am not arguing now.

The CHAIRMAN: What is the gravamen of the charge? The gravamen of the charge is that bank directors, as such, use their position improperly in relation to business—

Mr. POWER: Not necessarily.

The CHAIRMAN: And against competitors.

Mr. POWER: Not necessarily improperly.

Mr. WILSON: That we are unduly sympathetic to one another as a group of bank directors. That is what it means, not consciously, but unconsciously that is the way you would express it.

Mr. POWERS Yes.

Mr. WILSON: Of course, I think it is the reverse.

Mr. POWER: I do not supose we can get on very much in that regard.

The CHAIRMAN: Probably you had better agree to disagree.

Mr. COOTE: There is one question I should like to ask in regard to Sir Herbert Holt's statement that these directors bring business to the bank. Does not that business exist anyway, and would it not go to some bank?

The WITNESS: Yes.

Mr. WILSON: Some bank, surely, but not to ours necessarily.

Mr. COOTE: Before the inquiry is over, I should like to ask Sir Herbert Holt something about various bank mergers, but we will come to that later on.

Mr. POWER: Just following up Mr. Coote's question, if the business goes to some bank, the public does not care very much whether they do business with you, Mr. Wilson, or with Mr. Dodds?

Mr. WILSON: I am afraid you are only too correct, and it is because the public do not come to me that I have to go to them. I am like every other business man, I have to go out and get business, and directors are one means of getting business.

Mr. POWER: One means of getting business.

Mr. WILSON: Yes.

The CHAIRMAN: You think it is a legitimate means?

Mr. POWER: I think it is wrong.

Mr. WILSON: I do not think Mr. Power considers it illegitimate. He says would not this be a better scheme, and I said, I am very much interested, but I tell him frankly the objections that occur to me.

Mr. MORAND: I am afraid it will be an awful revelation to the public that the banks are going after business very seriously.

Mr. WILSON: I am serious when I say that.

The CHAIRMAN: They are spending a lot of money in the newspaper advertising for business.

Mr. COOTE: What kind of business is that?

The WITNESS: Commercial business.

Mr. WILSON: Getting deposits and getting loans. We have regular departments all over Canada, United States, London and Paris, and when we hear that there is a foreign corporation coming to Canada or people, say, like our friend Lord Rothermere, going to establish a pulp and paper mill down in your city of Quebec, what do we do? In that case, of course, Lord Rothermere is an old friend of Sir Herbert's, and I remember distinctly ringing up Sir Herbert and asking him whether he could see that we got that business. He said, "you know, I am going to be a director of that company; you have got it now."

[Sir Herbert S. Holt]

The CHAIRMAN: That is a very vivid illustration.

The WITNESS: Mr. Wilson could give case after case.

Mr. WILSON: We have, and other banks too—it is not peculiar to our bank—a regular department looking after that all the time.

Mr. COOTE: Have you any men looking after business among ordinary Canadians?

Mr. WILSON: Ordinary, yes. You mean men like myself and yourself, ordinary Canadians? Banks do not make a house to house canvass; but if a new enterprise started in Calgary, we would think our men are not on their toes if they did not go out to get the business.

Mr. COOTE: A business man said to me some time ago, when a grocery store wants to do business, the owner puts clerks behind the counter, and the minute somebody comes in the door, the clerk steps up and asks the customer if they can sell them something; but, he said, when the ordinary business man in Canada goes into a bank with the idea of borrowing money, he must give perhaps, a list of all his relations, you know, establish his standing in the community before he can converse with the man who really decides whether the bank is going to do business with him or not. Is there not too much of that attitude on the part of the banks?

Mr. WILSON: You do not really believe that. You are an ex-banker. No, I say emphatically, there is nothing of that attitude now. I am not talking about 20, 30 or 40 years ago.

Hon. Mr. MORAND: I think there is more of it now than there was 40 years ago.

Mr. WILSON: Of course, now—might you mean—

Hon. Mr. MORAND: It is probably worse now than it was 7 or 8 years ago, anyway.

Mr. WILSON: No, sir. Seriously, one thing that we have reports on, in regard to our staff—these are the reports that we were talking about with you, Dr. Morand, at Ottawa the other day—is we want to know what the attitude of the clerk is towards the public. Is he courteous? Is his attitude such that will bring business to the bank, make that man want to come back and say, "That is a nice place in which to do business; I am going there again."

Mr. COOTE: I do not want to be misunderstood. I am not criticizing the bank clerks at all. What I am suggesting is there is an entirely different reception awaiting the man who wants to purchase some thing from the bank than what there is for the man who wishes to purchase something from any retail store.

Mr. WILSON: What I say to that is, if that is true in individual cases, it is wrong and it should be corrected; because the bank is no different from any other business organization. We have something to sell, and we should be glad to see somebody coming in to buy from us—I am.

Mr. COOTE: I would ask your opinion as an official, whether that condition is not true in Canada?

Mr. WILSON: Generally speaking?

Mr. COOTE: Yes.

Mr. WILSON: No, I don't think it is true. I would be very much surprised if I thought it was true in the Royal Bank, very much surprised.

Mr. COOTE: I am not nearly as well acquainted with the Royal Bank as I am with the other banks.

Mr. WILSON: We will have to get to know you better.

Mr. POWER: Don't promise him too much.

Hon. Mr. MORAND: I thought we came here to get evidence from Sir Herbert Holt.

The CHAIRMAN: This is a side issue, perhaps we had better get back to the questionnaire.

Mr. WILSON: You have the balance of the questionnaire.

By Mr. Power:

Q. Now we come to pulp and paper. What was the aggregate amount in which corporations dealing in pulp and paper were indebted to the Royal Bank of Canada on December 1, 1926, December 1, 1927, December 1, 1928, December 1, 1929, December 1, 1930, December 1, 1931, December 1, 1932, December 31, 1933?—A. In many cases corporations manufacturing pulp and paper are also engaged in the manufacture of lumber, shingles, etc. This is true of a number of our most important customers. It would be impossible for us to segregate their borrowings and allocate certain proportions thereof against their various activities. Consequently the subjoined statement must be read with that in mind:—

December 1, 1926	$ 5,818,200
December 1, 1927	8,676,860
December 1, 1928	11,637,929
December 1, 1929	18,891,572
December 1, 1930	25,138,019
December 1, 1931	31,096,826
December 1, 1932	24,830,825
December 31, 1933	19,281,190

The foregoing figures, advances to the largest manufacturing industry in Canada. It may be interesting to know that a statement as of December 31, 1932, submitted to the Macmillan commission, showed that aggregate advances by all the Canadian banks to manufacturers of and dealers in lumber—I emphasize lumber—pulpwood and products thereof, amounted to $101,275,830.

Q. In 1932?—A. Yes, December, 1932.

Q. $101,275,830?—A. Lumber, pulpwood and products thereof.

The CHAIRMAN: Forest products?

WITNESS: Forest products, yes.

The CHAIRMAN: That was the amount advanced.

WITNESS: Yes.

The CHAIRMAN: I should like to ask you, was any portion of these loans made for purposes of capital expenditure, such as the purchase of timber limits, machinery, of a fixed character, or the building or erection of mills?

Mr. WILSON: There were two cases. One case was in Nova Scotia. The province of Nova Scotia spent $6,000,000 to develop a water power, and entered into a contract with a paper company which started to build a mill and invested some $6,000,000 or $7,000,000 of their shareholders' money. The intention was to find the last $3,000,000 by selling first mortgage bonds. Before that time came the latter part of 1929, the financial markets were closed. We were asked to put up the money to complete that mill on the security of the entire first mortgage bond issue, which we did, rather than force the province of Nova Scotia to do so itself. They obviously would have had to do it, or the $6,000,000 would have been left there unproductive. Now, that company has been operating practically full time ever since the mill has been completed, and it is one of the most flourishing industries in Nova Scotia.

The CHAIRMAN: Is that loan still current?

Mr. WILSON: Part of it is. The company is making money and reduce the loan from earnings.

[Sir Herbert S. Holt]

The CHAIRMAN: That is one case.

Mr. WILSON: The other case was in your province, New Brunswick. A sulphite mill was nearing completion and they needed another million or million and a half in order to complete the thing, and they came to us and asked us whether we would give them the loan, because it was at a time when they could not do any public financing, and we gave them the loan. In this case though, it was an advance to a company that had been operating other mills for a great many years, and we were able to get security on liquid assets.

The CHAIRMAN: You had other securities?

Mr. WILSON: Yes, we were abundantly secured.

The CHAIRMAN: I remember the transaction.

Mr. WILSON: Those are the two cases that come to my mind, where we did make loans that may be called capital loans; but I would emphasize they were to complete projects that had been started quite a while previously.

WITNESS: You might mention that that company was successful and employed a great number of men.

Mr. WILSON: It is the Restigouche mill—no secret about it. It has been operating 100 per cent and giving employment to several thousand people down there.

The CHAIRMAN: That particular loan has been repaid.

Mr. MORAND: These plants were not extended by the bank?

Mr. WILSON: No, just to complete the thing. They ran into the jam at the end of 1929.

The CHAIRMAN: The fact of the matter is the mill cost more than the original estimate.

Mr. POWER: How do you explain the curve since 1926?

Mr. WILSON: In 1926 it was $5,000,000.

Mr. POWER: Then it goes up to $25,000,000 in 1930, and $19,000,000 in 1933.

Mr. WILSON: $5,000,000, $11,000,000, $18,000,000—

Mr. POWER: $5,000,000; $8,000,000, $11,000,000; $18,000,000; $25,000,000; $31,000,000. How do you explain the jump? $5,000,000; $8,000,000, $11,000,000 seem to be reasonable, but how do you explain the jump from $11,000,000 in 1928 to $18,000,000 in 1929?

Mr. WILSON: It means two things. First of all, we have secured more pulp and paper accounts, and they were carrying larger inventories. I would say they reached the peak of $31,000,000 two years ago, and since then they have come down to $19,000,000.

The CHAIRMAN: It means a reduction in inventory.

Mr. WILSON: It means a reduction in inventory, and a reduction in prices. I mean, a cord of pulpwood is not worth as much to-day as it was several years ago; it does not take so many dollars to finance a wood pile.

Mr. POWER: Might I suggest in 1929 and 1930 you had about reached the culmination of the mergers in the pulp and paper industry?

Mr. WILSON: Mergers have nothing to do with the wheels of industry going around. Mergers would not have anything to do with it.

The CHAIRMAN: Would the increase in the size of the loan have any relation to the mergers?

Mr. WILSON: Not a thing.

Mr. POWER: None?

Mr. WILSON: No. They were subsequent. These were operating credits, as was brought out very fully yesterday at Ottawa, and I think some further question that Major Power has will indicate that.

Mr. POWER: Business, certainly, was not more active in 1931 than in 1929, and in 1931 the bank had $31,000,000.

The WITNESS: The companies had stocks on hand, lumber and piles of pulpwood.

Mr. POWER: As a matter of fact, the reason they owed more money was that business had slowed down in 1931, and they could not get rid of their lumber piles.

The WITNESS: That is true.

Mr. WILSON: A combination of two things. You understand how it happened.

Mr. POWER: That is really how the loans went up?

Mr. WILSON: Yes. You take firms like Frasers' and Price Brothers. Their lumber piles were practically stagnant. They could not move them.

Mr. POWER: Might I suggest that the drop from $31,000,000 in 1931 to $19,000,000 in 1933 was in part at least, attributed to a drastic deflation, which was forced on the lumber business by the banks.

Mr. WILSON: No.

Mr. POWER: We have started on one tack, let us try another.

The CHAIRMAN: It would be fair enough to say liquidation, anyway.

Mr. POWER: Does the Chairman wish to ask a question about rates?

The CHAIRMAN: I think it would be fair enough to say that the drop represented the liquidation of inventories.

Mr. WILSON: With which manufacturers throughout the country were caught.

The CHAIRMAN: Together with reduction in values?

Mr. WILSON: Yes, a reduction in values. I said there were two reasons. The reduction in values would be reflected in lower operating credits that we had to give to operators in 1930, the slowing up in business to the extent that the loan granted the year before was not repaid as we expected it would be. As I say, it was a combination of the two things. But so far as deflation in the lumber industry is concerned, I do not know of any deflationary policy that we carried out; quite the reverse. We were anxious to prevent a crash in the market, because it would have cost us money.

Mr. POWER: The decrease in the loans in 1932-33 might in part be explained by the fact that the pulpwood and paper, lumber and other companies industrially, were not operating during those years to any considerable extent. That is to say, they did not cut lumber and they did not cut pulpwood.

Mr. WILSON: They did not increase at the time prices were falling, and the natural thing is when prices are falling, everyone wants to keep the inventory at a minimum.

The CHAIRMAN: They did not operate, many of them. Take the case of Gordons, at North Bay, they did not operate at all.

Mr. WILSON: No.

Mr. POWER: Many mills closed down.

Mr. WILSON: You take the case of Frasers. They got out just enough to complete the cutting of 60,000,000 feet. Two years ago that was about 12,000,000 feet; 12,000,000 was what they got two years ago. They cut 6,000,000—

[Sir Herbert S. Holt]

By Mr. Power:

Q. What are the names of these corporations and in which of them were you a director or officer?

The CHAIRMAN: There are two questions there.

The WITNESS: It does not seem proper for the bank to have to disclose the names of the corporations whose borrowings are included in the statement just given you. To do so might be resented by some of these corporations, and therefore place the bank in an invidious position, particularly as all the banks have not been asked to furnish this information. Moreover, a number of the larger borrowers, were also customers of other banks and obtained advances from them as well as from us. I submit this point of view for your consideration. If the object is to ascertain the extent of borrowings from this bank by corporations in the pulp and paper industry of which I was a director or officer, I give the following figures of such borrowings.

Mr. POWER: That is satisfactory.

The CHAIRMAN: You are not asking for the individual borrowings there. I think that might be objectionable, but I cannot see any great objection to giving the names of the corporations who were borrowers, and the names of those in which Sir Herbert was a director or officer. That strikes me at a different angle.

Mr. POWER: As I understand the answer that Mr. Wilson is prepared to give, it is quite satisfactory to me, especially if he gives me the borrowings of the pulp and paper corporations in which Sir Herbert Holt was a director.

The CHAIRMAN: By name?

Mr. POWER: Yes. To a large extent we did obtain that information yesterday, I guess, most of it.

Mr. WILSON: The point is these are public corporations. We do not mind giving information about public corporations, in other words, telling things you can find out by looking at reference books, but we think it is wrong for us to give information about what we call private corporations.

The CHAIRMAN: As I understand the question, he is asking the aggregate amount of those who were borrowers.

Mr. POWER: As a matter of fact, I did not, but we had that, and we might as well have it again.

The CHAIRMAN: If the answer is satisfactory to you, I should not raise any question.

The WITNESS: I will read this:

Dec. 1, 1926—St. Maurice Valley Corp..	2,000,000
Fort William Paper Co. Ltd.	100
Price Bros. Co. Ltd...	240,000
	2,240,100

The CHAIRMAN: These are the companies in which you, Sir Herbert, were a director?

Dec. 1, 1927—Anticosti Corp. Ltd...	1,200,500
Price Bros. & Co. Ltd...	1,989,000
	3,189,500

[Sir Herbert S. Holt]

Dec. 1, 1928—	Anticosti Corp..	800,000
	St. Maurice Valley Corp..	3,175,000
	Price Bros. & Co. Ltd...	1,771,000
		5,746,000
Dec. 1, 1929—	St. Maurice Valley Corp..	1,125,000
	Price Bros. & Co. Ltd...	1,747,643
	Howard Smith Paper Mills Ltd...	1,463,343
		4,335,986
Dec. 1, 1930—	Canada Power & Paper Corp...	7,347,000
	Price Bros. & Co. Ltd...	1,550,000
	Howard Smith Paper Mills Ltd...	1,252,915
		10,149,915
Dec. 1, 1931—	Canada Power & Paper..	6,959,530
	Price Bros. & Co. Ltd...	2,152,500
	Howard Smith Paper Mills Ltd.	1,150,467
		10,262,497
Dec. 1, 1932—	Howard Smith Paper Mills Ltd..	465,069
Dec. 31, 1933	nil	

Q. The last is explained by the fact that Sir Herbert Holt was no longer a director of Canada Power and Paper Company?—A. And of Price Brothers.

Q. After some time in 1931?—A. Yes.

Q. He retired from both these boards?—A. Yes.

Q. What was the amount, if any, in which the Laurentide Company Limited was indebted to the Royal Bank of Canada on December 1, 1926, December 1, 1927, December 1, 1928, December, 1929, or up to the time in which this company was absorbed by Canada Power and Paper Company?—A. Nil. This was a Bank of Montreal account.

Q. What was the amount, if any, in which Wayagamack Pulp and Paper Company was indebted to the Royal Bank of Canada on December 1, 1926, December 1, 1927. December 1, 1928, December 1, 1929, or up to the time at which this company was absorbed by Canada Power and Paper Company?—A. Nil; this was a Banque Canadienne Nationale account.

Q. What was the amount, if any, in which Port Alfred Pulp and Paper Corporation was indebted to the Royal Bank of Canada on December 1, 1926, December 1, 1927, December 1, 1928, December 1, 1929, or up to the time at which this company was absorbed by Canada Power and Paper Company?—A. Nil; this was a Bank of Montreal account.

Q. What was the amount, if any, in which Anticosti Corporation was indebted to the Royal Bank of Canada on December 1, 1926, on December 1, 1927, on December 1, 1928, on December 1, 1929, or up to the time at which this company was absorbed by Canada Power and Paper Company?—A. December 1, 1926, nil; December 1, 1927, $1,200,500; December 1, 1928, $800,000; December 1, 1929, nil. We had only one-third of the company's account and advances equal to ours were granted by Bank of Montreal and Banque Canadienne Nationale.

[Sir Herbert S. Holt]

Q. Just there, the Chairman might like to ask a question he has been asking right along as to whether or not any of the funds loaned to Anticosti Corporation were for capital account?

The CHAIRMAN: You ask that.

Mr. POWER: That is the question.

The CHAIRMAN: Were any of the loans made for capital account, for the purchase of timber limits, for the installing of machinery, or for the building of mills, outside of the two you have already mentioned?

Mr. POWER: I am speaking now of Anticosti.

Mr. WILSON: I know what the question is, but I am trying to explain it intelligently. In the case of Anticosti, the credits obtained from the three banks mentioned were supposed to be operating credits, but as they were opening up a new property, I dare say a certain amount of the money was spent in improving rivers, building dams, doing things that are usually done when you are opening up timber property.

The WITNESS: Building a harbour.

Mr. POWER: The government did that.

The CHAIRMAN: Building operating plants for the purpose of getting pulpwood.

The WITNESS: Yes, it was the pulpwood operations. The Anticosti company itself really did no work—

Mr. WILSON: The public financed it with some money, but as things went on, it was not enough, apparently.

Mr. POWER: They spent $7,000,000 on the purchase and they raised $9,000,000 from the public. That left them with at least $2,000,000 to apply on that—

Mr. WILSON: They did get out a certain amount of pulpwood, and of course, as you know, they did spend certain money in the development of the property.

The CHAIRMAN: So it is likely some of those funds went to the development of the property?

Mr. WILSON: I am sure some of them did.

The WITNESS: No doubt.

The CHAIRMAN: They had to build houses, a hospital, schools, and things like that.

Mr. POWER: A rolling plant; that cost them a lot of money.

Hon. Mr. MORAND: One of the men said they hunched a bit.

The CHAIRMAN: I did not understand the application of the word in that respect.

Mr. POWER: Mr. Chahoon said they hunched. He meant they wrangled a bit.

The CHAIRMAN: That is the term I think he should have used.

Mr. COOTE: In regard to those two advances of December 1, 1927, do I understand that each of the other banks advanced the same amount?

Mr. WILSON: Yes, equal amounts. It was divided three ways.

The CHAIRMAN: No one bank would carry it all?

Mr. COOTE: It was not two-thirds to one, and one-third to the other?

Mr. WILSON: No.

Mr. POWER: The reason is obvious. There are three companies concerned, Port Alfred, Wayagamack, and St. Maurice. The Port Alfred bank was the Bank of Montreal, and the Wayagamack was the Banque Canadienne Nationale.

Mr. WILSON: Each bank had a guarantee from those three companies.

Mr. COOTE: I understood that, but I wanted to be sure.

Mr. WILSON: Yes, that is correct.

Mr. POWER: Anticosti owed $3,000,000?

Mr. WILSON: At the peak $3,600,000.

Mr. COOTE: I was just going to ask Sir Herbert or Mr. Wilson—

Mr. WILSON: That is correct.

Mr. COOTE: —in view of the fact they had $2,000,000 working capital and a loan of between three and four millions—

The WITNESS: They didn't have that, because there was a discount on the bonds sold.

The CHAIRMAN: They probably had a million and a half of working capital.

The WITNESS: They were discounted.

Hon. Mr. MORAND: $500,000 of commissions?

The CHAIRMAN: No. Outside of that they sold securities to the value of $9,000,000, and there would be a discount on the bonds. The company did not get it all, it was amortized, and there was a discount on the preferred shares.

Mr. COOTE: I tried to get from the witness yesterday what the spread would be, and he said 5 per cent. Five per cent on $7,000,000 would be—

The CHAIRMAN: I thought I was trying to get that from him.

Mr. COOTE: Perhaps we both did.

The CHAIRMAN: He only answered in a general way.

Mr. COOTE: Yes.

The CHAIRMAN: The spread on the sale of preferred would be larger on the sale of the first million bonds?

Mr. COOTE: It was not for lack of questioning I did not get the information.

The CHAIRMAN: I do not think he had the data.

Mr. COOTE: I perhaps did not know what it costs to get out pulpwood, but it does seem to me to be a very large loan in comparison with the capital involved.

The CHAIRMAN: Apparently the loans were taken care of.

Mr. POWER: 100,000 cords a year. They only took 400,000 in four years, and during one year they borrowed $1,000,000 to get it. It must have cost them plenty for their pulpwood.

The CHAIRMAN: I think they admit their pulpwood cost too much.

Mr. COOTE: Does the bank know, or who knows, how many cords of pulpwood they were going to be able to get out with the expenditure of this money?

Mr. WILSON: I am sure when they applied for the loan they gave us information of that sort. Everybody does. But we were not alone in a matter of that sort, because the three banks were abundantly secured by guarantee of these three companies, Wayagamack, Port Alfred and St. Maurice.

Mr. POWER: That was under section 88?

Mr. WILSON: We might have had section 88 as well; but our security was the guarantee of those three established companies, very prosperous companies in those days; 1927 is not 1934.

The CHAIRMAN: Those were the growing days.

Hon. Mr. MORAND: In handling the amount, did not a bank handle it and divide it among the other two?

Mr. WILSON: In this case it was divided three ways because the owners kept accounts in three banks, and each bank was anxious to have its full share.

So we finally said, "Let us split it three ways." If we had split it according to the amount of business we had from the owning companies, I suppose we would have got only a quarter and the Nationale a quarter, and the Bank of Montreal would have got one half. But it looked like a good loan, good business, and we held out for our one-third; Mr. Leman held out for his one-third, and he got it.

Mr. COOTE: From the business point of view, can we take it that the three banks considered Anticosti Island as a good one from the pulp and paper point of view?

Mr. WILSON: As bankers we had nothing to say about that, whatsoever. These companies never came around and asked us whether it was a good thing to do.

The CHAIRMAN: Were the banks consulted by either?

Mr. WILSON: If by the banks you mean me as general manager or the management of the banks, not a bit.

Mr. COOTE: You say these loans were guaranteed by the three companies?

Mr. WILSON: Yes, and they subsequently paid it off. That is why it disappeared. It was just taken along by those guaranteeing companies.

Mr. COOTE: In your ordinary loaning business, do you not ask the borrower what he is going to do with his money? Does not your manager go into it very carefully to find out whether or not it is a good proposition?

Mr. WILSON: Yes, but we are talking about two things. You asked me whether the banks considered the purchase of Anticosti Island by these companies as a good business venture. I say we were never asked for our opinion, and we did not express it.

We did not finance that deal. You are now discussing the credit we gave to the company after the property had been acquired.

Mr. COOTE: A company carrying on certain operations.

Mr. WILSON: Yes, pulpwood operations.

Mr. COOTE: How did the operations turn out?

Mr. WILSON: It did not turn out well, but we were well protected, because we had been guaranteed by the three big companies.

Mr. COOTE: It was the guarantee—

Mr. WILSON: That is what we were looking at.

Mr. COOTE: That you were considering?

Mr. WILSON: Without that guarantee they would not have got to first base.

Mr. COOTE: Did you not take into account the possibility of getting out pulpwood?

Mr. WILSON: No, as I say, here were three companies who had got into this thing. They must know their business. I wouldn't presume to sit down and say to them that I thought this was a foolish deal, even it were a foolish deal.

Mr. COOTE: They could have left the pulpwood on the island and not incurred all this expense?

Mr. WILSON: I, as a banker, would not think of taking the responsibility of suggesting that to them. That would be presumptuous. I do not know enough about pulpwood operations to be competent to say that.

The CHAIRMAN: They never anticipated the wood was going to cost that.

Mr. POWER: What surprises Mr. Coote and what surprises me is this, that if companies such as these, which were in a good way of business, and had a good credit, come to you with a proposition, provided they are willing to guarantee it previously, you do not care what they do with their money?

[Sir Herbert S. Holt]

Mr. WILSON: No. It has got to be for legitimate purposes.

Mr. COOTE: That was practically the inference.

Mr. WILSON: I do not mean to infer that at all. We are very much concerned with what they do with it. We are very anxious to know for what the loan is required.

Mr. COOTE: That is what the manager is for.

Mr. WILSON: Well, naturally.

Mr. COOTE: From my dealing with the general public.

Mr. WILSON: Your experience as a banker.

Mr. COOTE: Quite.

Mr. WILSON: That is one thing. We will loan him money for a commercial operation, to get out pulpwood, but we would not loan him money, the same man, for the purpose of buying an estate down in Georgia.

The CHAIRMAN: Or a race horse.

Mr. WILSON: Well, worse still; or to buy an estate down in Florida, or something like that. We say it is not the business of a bank to finance a thing like that. If you want to do that, sell some of your securities, get money like that, but do not ask us to carry you on such a deal.

Mr. POWER: I suggest that financing operations in Anticosti was a lot worse than buying an estate in Florida.

Mr. WILSON: I am sorry for those who lost their money invested in Anticosti; I know how they feel.

Mr. COOTE: It does lend colour to the belief of the public that a group of very influential business men interlocked on certain directorates, if they are running a concern and have security, the money is forthcoming.

Mr. WILSON: Your suggestion is that the three banks who made this loan were influenced by the fact that certain gentlemen were on the board of directors of the company.

Mr. COOTE: Not in this case any more than others.

Mr. WILSON: We are talking about this one as an example. I suggest in reply that is not the case, that we were influenced by the fact we were offered a joint and several guarantee by three large operating and prosperous companies, the signature of any one of these companies would have been undoubtedly good for the amount that the three banks loaned, and you as a banker would have been the first to say so in 1927 when the loan was made. Then, seven years later they get into difficulties, but that can be said about a lot of concerns. Is that a fair reply from my standpoint?

Mr. COOTE: Sufficient for the record.

Mr. POWER: Except if you strike out the words "years later," because they were in difficulties before they started.

The CHAIRMAN: At Anticosti, but not with their own business.

Mr. WILSON: It is no use to pursue me on the question of buying Anticosti.

Mr. COOTE: Anticosti was one of the difficulties they had to deal with.

Mr. WILSON: That is all right. I am repeating to you what I said in Ottawa last week. I had nothing to do with Canada Power and Paper Company, in any way, shape or form. Do not ask me about these things, because I may be making a mis-statement.

Mr. COOTE: You had something to do with the loan to Anticosti.

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The CHAIRMAN: It will be observed, Mr. Coote, that the loan in question was the first asset they had acquired. They acquired it in the summer of 1926. This was December, 1931, the year they started in to operate.

By Mr. Power:

Q. The next question is, what was the amount, if any, in which St. Maurice Valley Corporation was indebted to the Royal Bank of Canada on December 1, 1926, December 1, 1927, December 1, 1928, December 1, 1929, or up to the time at which this company was absorbed by the Canada Power and Paper Company?—A. December 1, 1926, $2,000,000; December 1, 1927, nil; December 1, 1928, $3,175,000; December 1, 1929, $1,125,000.

The CHAIRMAN: You do not include the guarantee in 1929?

Mr. WILSON: No, these are loans direct, loans to this company.

By Mr. Power:

Q. What was the amount, if any, in which the Belgo-Canadian Paper Company was indebted to the Royal Bank of Canada on December 1, 1926, December 1, 1927, December 1, 1928, December 1, 1929, or up to the time at which this company was absorbed by the Canada Power and Paper Company?—A. There were no advances.

Q. You have not got Belgo-Canadian?—A. No; because this was a Bank of Montreal account.

Q. As a matter of fact, Belgo-Canadian did get into the partnership when the St. Maurice Valley had been created in 1927, did it not, Mr. Chairman?—A. Well, I think the St. Maurice Corporation controlled both St. Maurice and Belgo. That was the first step in Canada Power and Paper, as I remember it.

Mr. POWER: 1926, was it?

WITNESS: My recollection is it was in 1926.

By Mr. Power:

Q. What was the nature of the security held against the loan in each of the above cases?—A. Security under section 88 of the Bank Act, and in the case of Anticosti Corporation, additional security by way of joint and several guarantee of the owning companies, viz: St. Maurice, Port Alfred, and Wayagamack.

Q. What assistance, if any, was given by the Royal Bank of Canada to the promoters of the purchase of the island of Anticosti from Senator Meunier in France?—A. The island of Anticosti was purchased direct—

The CHAIRMAN: That was gone into yesterday, but it can be repeated and put in this record.

Mr. POWER: In so far as the bank is concerned.

WITNESS: The island of Anticosti was purchased direct from Senator Meunier by Wayagamack, Port Alfred, and St. Maurice corporations, in order to extend their timber holdings.

The CHAIRMAN: Is that literally true, because Mr. Whitehead did say that Martin-Zede received something?

Mr. POWER: Martin-Zede received $1,000,000

Mr. COOTE: That would be commission.

The CHAIRMAN: But not from the buyers or promoters of the scheme.

The WITNESS: I am quite willing to leave this out, because I am not familiar with that aspect of the business, and it is not the bank's business.

The CHAIRMAN: Mr. Gundy spoke about $500,000 yesterday.

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Mr. WILSON: He was not a promoter.

The CHAIRMAN: That was for the sale of the option.

Mr. WILSON: They said, you can have a two-thirds interest in the option if you pay me half a million.

The WITNESS: In July, 1926, the Royal Bank advanced $6,196,922 to the Anticosti corporation (the name of the company that took over this property) on the joint and several guarantees of the three owning companies, viz., Wayagamack, Port Alfred and St. Maurice. These three companies were in a first class financial position at that time, and the loan was repaid within a few weeks, as arranged.

The CHAIRMAN: You covered that yesterday.

Mr. WILSON: Yes.

Mr. COOTE: The loan was repaid with the money secured from the sale of securities.

Mr. WILSON: Yes.

The CHAIRMAN: It was to bridge the gap, as we understand it, the sale of securities.

Mr. WILSON: Well, the titles were passing.

By Mr. Power:

Q. What assistance, if any, was given by the Royal Bank of Canada to the promoters of Anticosti corporation?—A. Answered by the preceding question.

Q. What was the nature of the security held against the loan in each case?—A. Answered by the two preceding questions.

Q. What assistance, if any, was given by the Royal Bank of Canada to investment bankers, firms, persons or securities who engaged in the promotion of the company known as Canada Power and Paper Company?—A. Canada Power and Paper Company was a consolidation of several companies effected by an exchange of securities of the new company for those of the company entering the consolidation. The new company did not issue any securities to the public, and therefore no banking assistance was required.

The CHAIRMAN: Or given?

The WITNESS: Or given, yes.

By Mr. Power:

Q. To what extent was Canada Power and Paper Company indebted to the Royal Bank of Canada at the end of the company's fiscal year 1928, 1929, 1930 and 1931?—A. December 31, 1928, nil; December 31, 1929, nil; December 31, 1930, $8,520,592, including loan and all, $1,699,592 on the joint names of this company and Laurentide Company Limited; December 31, 1931, $7,093,780 including loan of $1,914,280 on the joint names of this company, and Laurentide Company Limited. This account was divided with the Bank of Montreal who made advances similar to ours.

Q. That is to say, it was $14,000,000 some odd?—A. Yes, the total borrowings would total this amount.

Q. What was the use of having the Laurentide company's name on this loan when to all intents and purposes the Laurentide company had passed out of the picture?

Mr. WILSON: In 1930 they were in the picture.

Mr. POWER: In 1931 they were not.

Mr. WILSON: Yes, they were in the picture legally, because, as part of the security we had, the Bank of Montreal and ourselves, for that loan, were bonds

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on the Laurentide property. They had some heavy payment that Mr. Chahoon referred to on timber.

Mr. POWER: Is this the loan arising out of which you took possession of the 100,000 shares of Shawinigan?

Mr. WILSON: That is not an apt word. Yes, the Shawinigan shares were pledged at the time this Laurentide loan was made.

Mr. POWER: 100,000?

Mr. WILSON: Yes, along with other security.

Mr. POWER: They each went half one-half.

Mr. WILSON: Yes, 50-50.

Mr. POWER: 100,000 of Shawinigan?

Mr. WILSON: No.

Mr. POWER: I thought that was to your bank?

Mr. WILSON: No.

Mr. POWER: I thought that the Royal Bank had this 100,000.

Mr. WILSON: No, the Bank of Montreal would not let us get away with that.

Mr. POWER: I would not think so, because that was the only good asset in the concern.

By Mr. Power:

Q. To what extent is Consolidated Paper Corporation now indebted to the Royal Bank?—A. On May 18, 1934, $5,021,583, including loans of $1,911,080 on the joint names of this company and Laurentide Company Limited, and loans of $263,253 to Laurentide-Ottawa Company Limited. This account is also conducted on a 50-50 basis with the Bank of Montreal, who grant the corporation similar advances.

Q. So at the present time——A. Multiply that by two.

Q. Is Laurentide-Ottawa still in existence?—A. Yes, they have a lumber operation up near Pembroke some place.

Q. What security does the bank hold in this case?—A. Canada Power and Paper Company (while the company was a borrower): section 88 on inventories with relative fire insurance. Assignment of accounts. Hypothecation of marketable securities owned by the company and first mortgage bonds of a subsidiary;

Consolidated Paper Corporation Limited: section 88 on inventories with relative fire insurance. Assignment of accounts. Assignment of timber licences; Hypothecation of marketable securities owned by the company and first mortgage bonds of the borrowing corporation.

Q. What were they?—A. They were originally 50,000 shares Shawinigan in the case of each bank. At the moment there are 37,585 shares Shawinigan, each bank, and 1,431 shares Quebec Pulp and Paper preferred each bank.

Q. Quebec?—A. Quebec Pulp and Paper.

Q. Quebec Pulp and Paper Mills?—A. This is one of Price Brothers,—

Q. How many shares did you have?—A. 1,431 preferred, 24,998 shares Quebec Pulp and Paper Company, and 4,004 Newsprint Bond and Share Company. Then, we have first mortgage bond of the Consolidated Paper Corporation, totalling $3,904,650.

The CHAIRMAN: Par value?

The WITNESS: Par value. Then, we have an assignment of half interest in an amount due, by Price Brothers, being balance of purchase price of Peribonka limits, $382,000. Then, the two banks jointly have an assignment of timber licences covering approximately 1,193 square miles.

[Sir Herbert S. Holt]

By Mr. Power:

Q. How many?—A. 1,193. That is in connection with the Laurentide-Ottawa loan of $293,000.

Q. Have you a pledge against that?—A. Yes.

Q. Registered?—A. Yes.

Q. In the department?—A. Oh, yes.

Q. It is a straight assignment?—A. Yes.

Q. Of whatever rights they have?—A. The right to cut timber. There is no freehold.

Q. I do not suppose it is within my province to discuss with you the value of the marketable securities which you have?—A. Well—

Q. If it is, I might seriously question, perhaps, the value of 24,000 Quebec Pulp & Paper?—A. I do not put that forward as having value. I said what we held. It was available, and naturally banker-like, we took it. The really valuable marketable securities apart from the company's own bonds are Shawinigan shares. That is obvious.

Q. That is obvious?—A. Yes.

Q. That covers both companies?—A. Yes.

Q. That is the state of the poll to-day?—A. Yes.

Q. But these securities which were pledged for loans to Canada Power and Paper and naturally— —A. Automatically went to the successor company, yes.

Q. The next question is: What is the connection between Sir Herbert Holt and the firm of Wood, Gundy and Company?—A. There is none now, and there never has been any.

Q. What is the connection between Sir Herbert Holt and the firm of Holt, Gundy and Company?—A. I was president of and owned 30 per cent interest in the company—no longer in business.

Q. It is no longer in active business?

Mr. Wilson: The charter may be alive. That is what Mr. Gundy said.

The Witness: The charter has been given up.

Mr. Power: Mr. Gundy gave the impression the charter was still in existence.

The Witness: The charter has been surrendered.

By Mr. Power:

Q. To what extent, if any, were these firms indebted to the Royal Bank of Canada on December 1, 1926, December 1, 1927, December 1, 1928, December 1, 1929, December 1, 1930, December 1, 1931, December 1, 1932, and December 31, 1933?—A. I have just indicated that I have never had any interest in the firm of Wood, Gundy and Company. Because of this I would ordinary feel unable to disclose particulars of this firm's borrowings from the bank, but in this case the Bank has obtained permission from Wood, Gundy and Company to give the information in question. The following is a statement of borrowings for which you have asked:

Holt, Gundy and Co., and Wood, Gundy and Co. jointly—

Call loans fully secured by readily marketable collateral.

December 1, 1926	$278,110
December 1, 1927	740,000
December 1, 1928	440,000
December 1, 1929	nil
December 1, 1930	500,000
December 1, 1931	nil
December 1, 1932	nil
December 31, 1933	nil

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Holt, Gundy & Company—

Call loans fully secured by readily marketable collateral.

December 1, 1926	$ 392,292
December 1, 1927	1,695,030
December 1, 1928	nil
December 1, 1929	nil
December 1, 1930	nil
December 1, 1931	nil
December 1, 1932	nil
December 31, 1933	nil

Wood, Gundy & Company—

Call loans fully secured by readily marketable collateral.

December 1, 1926	$2,630,477
December 1, 1927	6,989,330
December 1, 1928	959,442
December 1, 1929	4,162,180
December 1, 1930	3,288,058
December 1, 1931	4,705,848
December 1, 1932	715,807
December 31, 1933	2,675,757

Q. To what extent were investment bankers, including Wood, Gundy and Company, Holt, Gundy and Company, and A. E. Ames and Company assisted in the financial operations which resulted in the formation of a merger of pulp and paper companies known as Canada Power and Paper Company, now known as Consolidated Paper Corporation?—A. As stated in reply to a previous question, there were not any securities issued to the public in connection with the merger of pulp and paper companies known as Canada Power and Paper Company, and therefore banking assistance was not required.

Q. I notice in this list, you give a list of call loans. Were there any other loans of any other kind?—A. No, I just put that there to indicate they were all by way of call loans.

Q. That is the only way you could make loans to those people?—A. The only way you could.

Q. The only way you did? They are not in any business. Now, I have asked for a balance sheet of the Montreal Trust Company?—A. Here it is. (See Appendix AK.)

The CHAIRMAN: Do you want to ask any questions on it?

Mr. POWER: No. I asked you what the assets were.

The CHAIRMAN: They are segregated.

Mr. POWER: The total assets.

Mr. WILSON: $825,763,643.26.

The CHAIRMAN: This includes trust assets.

Mr. WILSON: That is December 31, 1933.

Mr. POWER: This includes trust assets.

Mr. WILSON: Yes. I will file the statement.

The CHAIRMAN: Gentlemen, do you wish to ask Sir Herbert Holt any other questions?

Mr. COOTE: I have a few questions to ask, Mr. Chairman, that will not take very long. They are particularly in regard to interlocking directorates.

By Mr. Coote:

Q. Sir Herbert, you were a business man before you became a banker, I think?—A. I hope I was.

Q. I do not want to ask you particularly, but could you tell us offhand when you became a banker?—A. In connection with the Royal Bank, I think it was 1908.

Q. I was wondering— —A. Probably a year and a half—

Q. A year is not very material.

Mr. WILSON: About 30 years.

By Mr. Coote:

Q. Perhaps you can remember how many directorships you held before you became a bank director?—A. I cannot tell you now, but I had quite a number of directorships, not only in this country, but in other countries.

Q. Do you remember the greatest number you held in any one time?—A. Well, I cannot tell you, but there was a statement made in the Privy Council of the Federal Government that I held 153, but I never held any such amount.

Mr. WILSON: You could never find them.

The CHAIRMAN: Made where?

The WITNESS: If you ask me that question, where it was made, the British government asked me to become Comptroller of Munitions, and my name was submitted to the Canadian government, and they said I was interested in so many companies I was not a fit person.

Mr. COOTE: That is very interesting.

The WITNESS: Well, it is true.

The CHAIRMAN: Said where, in parliament?

The WITNESS: In the council chamber.

Mr. WILSON: I think they were considering the appointment.

By Mr. Coote:

Q. There have been so many conflicting statements published I thought perhaps you might be able to give me the correct figure and state what is the greatest number you held at any one time?—A. I cannot tell you.

Q. You do not keep any record?—A. No, I never kept any record.

The CHAIRMAN: His biographer some day will tell the story.

Mr. WILSON: A list of directorships is a very misleading thing. For instance, I have seen Sir Herbert's list, and I have taken the pains to try to find out where some of those companies were, and at one time I discovered about ten or fifteen were subsidiaries of the Montreal Light, Heat and Power Company.

The WITNESS: Yes.

Mr. WILSON: They were office companies, and for some reason or other, they owned a transmission line or a gas tank, or a couple of big boats—

The WITNESS: That was all included in the list, but I could never find out anything like that.

By Mr. Coote:

Q. Perhaps you were president of some companies you were not aware of? —A. No.

Q. Being a very busy man, you would forget that?—A. No.

Q. Well, I do not know whether I am putting this question in the right way or not, but why would you or any other man care to have such a large number of directorships?—A. Mr. Coote, I never became a director of any company in which I did not have a large financial interest.

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Q. I think this is a little different from the question which Major Power asked this morning, but could you tell us the amount of directors' fees that you received in any one of those years?—A. I could not.

Q. Then, is it any advantage to an industrialist to be a bank director?—A. None that I know of, except to the bank.

Q. None whatever, except to the bank?—A. Except to the bank.

The CHAIRMAN: You do attach considerable importance to that?

The WITNESS: Certainly I do.

Mr. WILSON: I do, the management does.

By Mr. Coote:

Q. Would it be any advantage to a large financial operator to be a director of a bank?—A. Well, here is my own case. I have never borrowed a cent from a bank in my life. I am only giving you my case.

Q. Would you give that advice to the young men of to-day?—A. I would, sir.

Q. That would be bad for the banks?—A. Well, sir, I cannot help it.

Mr. WILSON: Sir Herbert knows the young men would not take it, so the banks will still continue in business.

By Mr. Coote:

Q. How many men do you say determine Canada's financial policy to-day?—A. I cannot tell you.

Q. You would not have any opinion to offer?—A. I have no opinion to offer. If they took my advice it would be very different.

Q. Just what do you mean by that? Do you mean the policy would be different?—A. Yes.

The CHAIRMAN: Are you referring to the government policy?

The WITNESS: Public policy.

The CHAIRMAN: He is talking about Mr. Bennett.

Mr. POWER: He does not want to say which one.

By Mr. Coote:

Q. Would it not be fair to say that Sir Herbert Holt, Sir Charles Gordon, Sir John Aird, and may be Sir Joseph Flavelle, or say double that number, or ten men, really control the financial institutions of Canada to-day?—A. Well, they do not control it.

Q. No?—A. No.

Q. What are directors for, Sir Herbert?—A. For conducting the business of the bank.

Mr. WILSON: I think Sir Herbert's point is, while he is the head of our bank, there are 25 directors associated with him and Sir Herbert Holt does not impose his views on the other directors.

The WITNESS: To your knowledge, did I ever try to?

Mr. WILSON: I never saw it. If you had a brain storm and tried to do it, I know we would lose some of our directors.

The WITNESS: Perhaps we would lose our general manager, too.

Mr. WILSON: I might stay due to the fact that I am a poor man, but some of the others would not stand for it.

By Mr. Coote:

Q. This is rather an important question. To what extent do directors direct? Do the directors determine the policy of the bank, or does the general

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manager determine it?—A. The general manager submits everything to the directors, that is, except small things.

The CHAIRMAN: He is speaking sir, of policy.

The WITNESS: Yes.

By Mr. Coote:

Q. Yes.—A. It is considered, sometimes. For instance, in the Royal Bank, we have directors in several cities, Vancouver, Winnipeg, Halifax, Toronto, Quebec. They meet weekly or bi-weekly, and they pass on local credits. They have authority to extend loans up to a certain amount, moderate amount—beyond that it is referred to the whole board of directors.

Q. When the bank sends out letters through their general manager, we will say, circular letters, which go to every manager indicating that the bank wants a certain policy followed, would that be determined by the board of directors, or by the general manager?—A. I think it would be determined by the general manager.

Mr. WILSON: I would report it to the board because I would want to feel that the board concurred in what I was doing. The directors expect the general manager to initiate things, but I say the general manager also includes the officers generally.

Mr. COOTE: It was mentioned this morning that you were president of the Dominion Steel and Coal Company?

The WITNESS: No.

The CHAIRMAN: A director.

The WITNESS: A director. In that connection I have offered to resign a dozen times.

Mr. WILSON: They won't let you do it?

The WITNESS: They won't let me do it.

By Mr. Coote:

Q. I was just going to ask you why the president of a bank would be bothered being a director of that concern, which is located so far away from your office?—A. Well, the reason I am a director is, I have some knowledge of the business. I was instrumental in having Sir Newton Moore appointed because I thought he was the best man. Now, when he thinks I can give him any information, he comes up to see me. He was down here yesterday.

Mr. WILSON: A large part of your business is coal. Sir Herbert has been in the coal business through the manufacture of gas for the Montreal Light, Heat and Power Company for a great many years.

Mr. COOTE: I am using that as an instance to try to get to the underlying motive which induces a man to take on a large number of directorates; but I am unable to get from Sir Herbert the number which he might possibly have.

Mr. POWER: Take for instance, the paper business, in which Sir Herbert Holt was not connected prior to the time he took on the paper directorate. Would that suit your purpose?

Mr. COOTE: That would suit my purpose, although that is not quite so well, because Sir Herbert has been interested in the power business, which is very closely connected with paper, and it is all situate around Montreal. But I will be glad if he will tell us why he became a director of a number of paper companies.

The WITNESS: Port Alfred?

[Sir Herbert S. Holt]

Mr. Wilson: May I say something here. I do not want to interrupt you, but I think the reason that a man like Sir Herbert is sought in so many businesses, is first, it is well known that he is a man of large means, and he has investments in a lot of these companies. He is not lazy. He is a man of tremendous capacity, and these companies welcome his counsel and advice because the experience you get from the business world is cumulative. I know from experience, many of these companies have come to me and said, "Couldn't we arrange to have Sir Herbert come on our board?" I say, "Why do you want him?" "He owns some stock in it now, and we would like to have his counsel around the board table once a month or once a fortnight, as the case may be". A lazy man is not asked to go on a board.

The Witness: Mr. Coote, I think I answered that before, but I may not have made myself clear. I have never been a director of a company in which I did not have a financial interest. I had a financial interest in Port Alfred, and Port Alfred was part of the merger, part of that paper group.

By Mr. Power:

Q. It was the first group in which you—.—A. No, sir.

Q. It was the first in which Mr. Gundy—.—A. Yes.

Q. —first in which Mr. Gundy?—A. Long before, and if you will allow me to explain my attitude in the whole paper situation, I will do so. It was a company in which Mr. Gundy was interested, Bay Sulphite. When I heard about that, I was a director of the Price company. I saw Sir William Price, and I said to him, "Now, you want to get that company; you do not want to allow somebody to come in to your territory, it would interfere with your logging and you can get it comparatively cheaply." I understood that, I did not know. He said he would agree to do it. I was on my way over to England. Unfortunately, by the time that he could get around to that, he met with his accident. I followed that up further with the late president of the company, his son, and told him it was most important that we did not want to start—it was before Port Alfred started—we did not want another paper company, because it was reaching the critical stage. I told Mr. Gundy to go to see him, and they came to an agreement.

The Chairman: To purchase?

The Witness: To purchase. Jack Price came over to my office and consulted me about it. I said, "You are getting a bargain, you want to do it." He went down and he consulted with his executive in Quebec, and he telegraphed me that they decided not to take it. That is one paper company that would never have been started. The Port Alfred company would never have been started if my advice had been carried out on that. I cannot give you any more concrete answer of why I am a director of this company than I have never made anything out of that. I have lost. I would be ashamed to tell you how much money I have lost.

The Chairman: I might suggest to you, if times had remained good, you might have been blamed for going on the board of directors for the purpose of transferring that company over to Price Brothers?

The Witness: Oh, well, yes.

Mr. Power: You are damned if you do, and you are damned if you do not.

The Witness: Yes. Do not you think my policy was right?

The Chairman: Gentlemen, the time is going on.

By Mr. Coote:

Q. I have just one other question, if I may be permitted to ask it. I intimated before I would ask you this: The Royal Bank has grown to be a very large institution since you became interested in it?—A. Yes.

[Sir Herbert S. Holt]

Q. And it was largely through bank mergers. This is a question with which I am personally acquainted?—A. Not largely.

The CHAIRMAN: They could tell you relatively.

Mr. COOTE: We won't go into that.

The WITNESS: Mr. Wilson will give you all the figures.

Mr. COOTE: My question is this—

The WITNESS: I have the question. Why the bank went in was often at the request of the government.

The CHAIRMAN: The Minister of Finance of the day.

The WITNESS: The Minister of Finance of the day. These banks were in trouble, and they got the banks taken over. Now, you know yourself a number of these banks were taken over, and we would never have taken them over if it was not to clean up the situation.

Mr. COOTE: I will have to take your word on that, because we were always told the Canadian banking system was so good none of them ever failed.

The WITNESS: Since the banks—

The CHAIRMAN: They were not allowed to fail.

The WITNESS: They allowed them to fail then.

By Mr. Coote:

Q. That brings us to the question which I want to ask you. The situation now is that we have ten banks in Canada, and three of these banks, control, I think, about 70 per cent of the business——A. I do not know that I should mention about that.

Q. Without asking you to accept those figures, I would make the statement —you might correct me if it is incorrect—that these three banks really set the banking policy in Canada, and the other banks must follow?—A. I disagree with that altogether; absolutely disagree with that.

Q. Do you think it is in the interest of Canada to allow any further bank mergers?—A. If I had my way I would have three banks in Canada at the outside. They have five banks in England to control the biggest commercial nation of the world.

Q. If three would be advisable, would it be better still to have two?—A. No; I think three would be a fair amount because you have got to have a certain amount of competition between them.

Q. You think you would have competition with three?—A. Do you mean would that be all the competition required?

Q. When that situation arises, would not the directors of those three banks have more control in Canada than the government itself?—A. No, sir; they would have no more control than the banks have now, which is nothing, so far as the government is concerned, or so far as I know, of controlling the policy of the different banks or anything in connection with the control of the treasury.

Q. Mr. Chairman, there is a temptation to ask more questions——A. Go ahead.

Q. I think perhaps——A. I am quite willing to stay here all day.

Q. Just one more word. Mr. Wiggins formerly president of the Chase National Bank——A. Yes?

Q. —in 1931 made a statement to the effect that prosperity could not return to the United States until the wages of the labouring people were reduced. At that time, he was drawing a salary or a total remuneration of $202,000. It seemed to me a little bit unfair on his part, a man with that salary, to suggest that these other men should take a reduction, and not suggest it for himself. I should like to ask you whether there is not a danger when a man becomes as powerful in the financial and industrial life of the nation, as Mr. Wiggins was

in the United States, or as you yourself have been in Canada, in placing too much power in his hands, and that he is not apt to misuse it?—A. Well, as I explained before, the system of banking in the United States is absolutely diametrically opposite to the system in this country.

Q. They have the system of interlocking directorates?—A. They have the system of interlocking directorates, but they have how many banks? They had over 25,000 anyway.

Q. They have in New York what is termed the "Big Three," the same as we have in Canada. Mr. Wiggins was the chairman of the board of the biggest?—A. Yes, the biggest in the world.

Q. Their interlocking directorates, so Mr. Wiggins said, carried a certain amount of authority into something like 4,000 corporations in the United States?—A. Yes.

Q. Does not somewhat the same condition exist in Canada, of course, to a lesser degree, because we are a smaller country?—A. No such condition to my knowledge exists in Canada at all. Absolutely opposite.

By Hon. Mr. Morand:

Q. From 1926 to 1929, during the expansion of credit,—I will put it that way—.—A. Yes.

Q. Was there any concerted effort made by those in charge of finances to limit or to stop that expansion to your knowledge?—A. Yes, there was, as far as the Royal Bank was concerned, and myself personally. If you read my annual speeches, you will see I covered that. I gave warning. I do not know how many annual addresses I made giving warning of the conditions.

Q. But you did not have control of it sufficiently?—A. I could not control it. I controlled it as far as we could.

Q. You controlled it as far as you could?—A. Yes, as far as the bank could.

Mr. WILSON: If there were only one bank, your control would be absolute, but where you have competitors, naturally you must be influenced to a degree by what they are doing; otherwise I am liquidating my bank, and the other fellow is building up his.

By Hon. Mr. Morand:

Q. After October, 1929—.—A. Yes?

Q. —there was undoubtedly a marked contraction of credit—I have to be very careful of how I word this—was there then a concerted action in the contraction of credit?—A. From the banks? Mr. Wilson can answer that better than I, because he was closer in touch with the management of the other banks, but to my knowledge there has never been any.

Q. Concerted action?—A. No.

Mr. WILSON: You never discussed with Sir Joseph Flavelle or Sir Charles Gordon or the presidents of those other banks?

The WITNESS: Never once. I have never discussed the affairs with any president or officer of any other bank.

The CHAIRMAN: Except your own.

The WITNESS: Except my own.

By Mr. Coote:

Q. If we had three banks, could these have controlled the situation?—A. No, sir. Under a proper conduct of the banks, they could not control the situation.

The CHAIRMAN: Before we close, I want to ask Sir Herbert Holt one question.

[Sir Herbert S. Holt]

By the Chairman:

Q. Sir Herbert, would you care to offer to this sub-committee, and through it to the public of Canada, any solution for the present newsprint situation in Canada?—A. Well, Mr. Chairman, I would be very glad to give my opinion for whatever it is worth. The present situation in the newsprint in Canada is largely, primarily, owing to the six provinces that are producing at the present time. It was caused by the anxiety of the governments of those provinces to start new industries, to get more money for their timber licences, and employment for their people. That is the primary cause. The next thing was that, as I said, after 1927, the companies I was interested in did everything possible to curtail the thing. There were certain other companies formed which increased the production by roughly a capacity of 4,400 per day. These are the people I consider responsible for the present—largely responsible for the present situation; and the only solution I have is for the six provinces that have paper mills to get together and agree on a quota for each mill, so that one mill cannot run at 100 or 105 per cent, while another mill is running at 25 per cent. As long as the present system exists, people are going to go out and try to cut tonnage and cut rates. If the provinces would establish a quota and control their licences for cutting pulpwood, that would be all done away with, because there would be no object in those mills cutting rates. That has been the cause. At prosperous times, when I joined this thing, the standard price was $65. We found there was under-cutting in the new mills started up by secret rebates. It went further than that, when the new companies started in, by going out and taking contracts at less than the standard price, and that kept on. Now, that is why I quit the paper business in 1929. I was on the other side when the International Paper Company cut the price of paper to $50 a ton. I advocated when I returned to the board of Canada Power and Paper Company, that unless the International would replace the price to start in—because I was trying to finance—he could not have financed the mills, but that only applied to one company. All those new companies of which you have a list have started in since 1927. Now, the Canada Power and Paper Company is practically the only company in Canada that I know of that has not increased its capacity, and as I said to Major Power to-day, I do not see why I should be picked out and the Royal Bank is being made the devil in the piece—

The CHAIRMAN: Being made the goat.

The WITNESS: Yes. I must say I resent that.

The CHAIRMAN: I should say this, Sir Herbert, in reply to that last observation, that the evidence given before this committee yesterday was of a very illuminating character, and I think it will put the facts correctly before the public. Your position now is made clear, probably for the first time. In part, your solution of the newsprint situation is this: You believe that a quota system enforced by the various provincial governments would control the supply of raw material?

The WITNESS: Yes.

Mr. POWER: I do not think I can allow that statement to go by without questioning Sir Herbert.

By Mr. Power:

Q. You state the primary responsibility is on the provincial governments. Was there not a great deal of responsibility on the business men whose greed or avarice or desire for gain led them to embark in new ventures in the newsprint industry?—A. Will you ask the people who did it? Do not ask me that.

The CHAIRMAN: You were speaking generally.

The WITNESS: No, I am speaking of the companies I was connected with.

[Sir Herbert S. Holt]

The CHAIRMAN: You mean by that the investment bankers?
The WITNESS: Yes.

By Mr. Power:

Q. Anyone. Sir Herbert Holt says that the over-expansion was due to the governments. The governments would not have permitted this over-expansion if the business men had not come to them and said, here, we want to put our money in this because we are going to make money for ourselves.

The CHAIRMAN: I think it is true in some cases. I can recall a case in the province of New Brunswick where the premier of the province did everything he could to get a newsprint industry established in that province.

The WITNESS: You know, I was interested in that originally.

The CHAIRMAN: Grand Falls.

The WITNESS: I was not interested in Grand Falls, the National Paper Company of those days, and two or three others were interested in those days. Sir William Van Horne came to me and asked me, with my knowledge as an engineer, if I would not join them and help them out. I never had one dollar invested in that company. I said, "Yes." I looked into the thing, and found the paper business was at such a low ebb that it should not be gone on with. I advised them not to go on with it. As the chairman knows, later on the premier —I do not know whether he took it by law or not, the franchise—

The CHAIRMAN: He made arrangements to buy Grand Falls Paper.

The WITNESS: He did that. He tried to get X to come on and put up a mill there. X came to the bank. He entered into a contract to buy New Brunswick land, and pay $1,000,000 for it. He came to the bank, and when I heard of it, I saw him and I said, "You cannot go on with this; I know all about it."

The CHAIRMAN: Do you want to go very far into that?

The WITNESS: I am just giving you that now. This is in reply to your answer. That was one reason, and they succeeded in getting the mill erected with a capacity of over 500 tons a day.

By Mr. Power:

Q. Let us go to the Port Alfred situation. After you had got into the Port Alfred picture, you built a paper mill?—A. That was when the demand required it.

Q. This was in 1925?—A. Yes.

Q. You built a paper mill? You went to the government of the province and asked them to sell you 2,500 miles of timber limits?—A. I did not do it.

Q. The Port Alfred crowd with which you were connected?—A. Yes.

Q. Later on you purchased Anticosti?—A. I did not do it.

Q. The crowd with which you were connected, the Canada Power and Paper, for the purpose of still further expanding the industry?—A. No, it was not.

Q. And leading— —A. It was not for that purpose, as I understand it. I had not anything to do with it, because I was on the other side. It was to keep it as a reserve, and it was on the recommendation of practical men who cabled me about it. I rather frowned on it at first, but they said it was the unanimous opinion of practical men in the industry that they should have it.

Q. Whether or not it was bought to be kept as a reserve, actually they tried to operate it?—A. Yes, they did.

Q. That was not done by the government; that was done by the men themselves?—A. No. You want to have particulars about your province? I can give them to you.

Q. Then the next thing I should like to know is this: Would it not be very difficult for governments to come to an arrangement about quotas and about bringing about a settlement in the pulp and paper trouble, when the business

[Sir Herbert S. Holt]

men themselves, who are on the boards of those companies—though they have come together time and again within the past seven or eight years in the newsprint industry and elsewhere—cannot trust themselves to carry out the terms of their agreement?—A. Mr. Wilson would know about that. Mr. Wilson was on the banker's committee who tried to get them together, as I explained.

Q. Why could they not agree?—A. Because they could not. Each one was out for himself.

Q. Do you think that if these men would come to some agreement—

The CHAIRMAN: You have no authority.

By Mr. Power:

Q. If these men had come to some agreement themselves as to the basis on which the newsprint industry could be organized, would it not have been the easiest thing in the world for them to go to the respective governments and ask them to sanction it?—A. They could not do it, and nobody else could.

Q. Then, why ask the government to interfere when you cannot come to an arrangement among yourselves? Why put the blame on the politician?—A. I am not blaming it on the politician at all. I want to disabuse your mind of that. It was the means by which the government could make these people behave. That is all I ask.

The CHAIRMAN: Your suggestion is they only would have the power of enforcing it, because they have the raw material.

Mr. WILSON: We have that in the so-called bankers' committee. We could come to an agreement on policy with about 80-85 per cent, but there would be that last 10 or 15 per cent who would raise Cain.

Mr. POWER: Would you have compulsory co-ordination in the paper business?

The WITNESS: I should.

Mr. WILSON: I would have at that time.

Mr. POWER: If you have it in the paper business, why not in the power business?

Mr. WILSON: Because the power companies are regulated by public bodies.

The WITNESS: We are regulated.

By Mr. Power:

Q. Why not in the boot and shoe business?—A. Because they seem to be able to get along by themselves. Those newsprint fellows have never been able to get along.

Q. You want government interference with business when you can't get along among yourselves?—A. That is not fair.

The CHAIRMAN: We do not want to get into a discussion on that just now. At all events, I asked you the question as to what your solution was for the newsprint trouble, and you have given us what your solution is?

The WITNESS: That is correct.

The CHAIRMAN: Without criticism of anybody?

The WITNESS: Without criticism of anybody.

The CHAIRMAN: Gentlemen, is there anything more you want to ask?

Mr. WILSON: Mr. Chairman, there is one phase of the inquiry here, and that is the relationship of the banks with the pulp and paper industry, and the banks thought they might be called upon to make some statement or file a brief. I have such a brief here, given to me by Mr. Logan, the acting president of The Bankers' Association, and I shall file it now, if you care to have it. There is nothing controversial in it.

The CHAIRMAN: Very good.

Mr. WILSON: I shall file it with the clerk of the committee. (Printed as Appendix AL).

The CHAIRMAN: If there is nothing else, gentlemen, we will adjourn.

The sub-committee adjourned.

[Sir Herbert S. Holt]

HOUSE OF COMMONS,

May 31, 1934.

The Select Standing Committee on Banking and Commerce met at 4 o'clock p.m., Mr. R. B. Hanson in the Chair.

Mr. S. H. LOGAN, Acting President, The Canadian Bankers' Association, called.

Mr. CHAIRMAN AND GENTLEMEN,—Before you proceed to the consideration of sections 27 to 29 of (Bill 19), I would ask permission to submit a brief on behalf of The Canadian Bankers' Association. This brief contains some comment on the provisions of these sections which require the surrender to the Bank of Canada of all the gold held in Canada by the chartered banks and deal with the value at which the gold is to be transferred.

I would first ask you to consider the part played by gold in the Canadian banking structure during pre-war days and to contrast that situation with the one which exists at the present time.

Before 1914 gold holdings in Canada by the chartered banks were an important factor in strengthening them against any domestic emergency. There was little demand for gold coins by the public and the amount in general circulation was comparatively small, but it had become traditional for Canadians to judge the strength and stability of the individual bank by the amount of gold which it held. A much more vital matter, however, from the banker's point of view was that if his supply of Dominion notes became depleted he could secure from the Minister of Finance the additional notes required to re-establish these essential cash reserves only in exchange for his gold.

Apart, of course, from the domestic situation, the banker's gold, whether held at home or abroad, was under gold standard conditions a form of international currency, good everywhere, and available to meet a banking emergency in any part of the world where he had undertaken transactions.

When war broke out and the Finance Act was passed the situation in Canada was fundamentally changed. It was no longer necessary for a bank to purchase Dominion notes with its gold for the supplies requisite to maintain its Canadian cash reserves could be borrowed from the Minister of Finance against approved security. Gold holdings by a bank in the Dominion to protect its domestic position became, therefore, entirely unnecessary, except for their psychological effect on the public mind. They remained, however (as the only form of international currency) just as important as before to safeguard a bank in the foreign transactions which it undertook for, though a general prohibition was in force against gold export without official authority, it was clear that such authority would not be withheld if the circumstances warranted a relaxation of the regulations.

It might perhaps clarify the situation if I explain that the commitments of Canadian banks abroad are by no means confined to those banks which have established branches in other countries, nor can they be measured solely by the amount of the deposit and other liabilities of such foreign branches. While liabilities of this nature are in some cases substantial they are well safeguarded by local reserves adequate to cope with any minor disturbance and these reserves

in turn can be reinforced from the general reserves (including gold holdings) carried by the banks in Canada and in the great financial centres.

General reserves, in addition to their value for reinforcing local foreign branch reserves, are also very necessary in connection with the purchase or sale by a bank of foreign bills arising from the export and import trade, from the ebb and flow of international transactions in securities and from other normal capital movements.

As you are no doubt aware, when a bank purchases an item drawn in any foreign currency it hedges the transaction at once by a sale of an equal amount in the same currency. The time it will take to despatch the bill purchased to the country upon which it is drawn and the approximate date, therefore, upon which the bank will come into actual possession of the foreign currency in question is carefully calculated. The date upon which the bank agrees to deliver the amount of that currency which it sells as a hedge is set to coincide as closely as possible with that upon which it will present and receive payment for the bill it has purchased. Some leeway in the exact coincidence of these dates is given through the balances maintained by the bank with its correspondent in the country concerned but for obvious reasons balances sufficient to guard against every possible emergency cannot be carried in each country with which the bank may at some time be called upon to put through transactions.

It is easy, therefore, to see how an emergency may arise. Perhaps, for example, the shipment of goods covered by the bill which the bank has purchased may have gone astray or some import embargo or quota regulation may come into force without notice which delays or prevents their arrival and the drawee refuses to pay the item until the goods are delivered. The bank in consequence does not receive the sum in the foreign currency at the time expected, yet it is under contract to deliver promptly on the date agreed the equal amount in that currency which it has sold as a hedge. The bank cannot haggle or beg for an extension of time; it must meet its obligations without hesitation or delay on the day they fall due or it is branded as in default.

To provide the foreign currency the bank requires under such circumstances to protect its good name, the first step it will take is to attempt to buy the necessary amount of that currency in the Canadian market or in London or New York. If it can find no sellers, if it is unable to fill its requirements because of some exchange quota restriction, or if it is offered the currency only at an exorbitant premium which will involve it in heavy loss, the bank will then—but not until then—ship its gold and so extricate itself from any embarrassment.

Exactly the same process would be followed if a general panic arose in any foreign country where a Canadian bank was established and it became necessary in consequence to reinforce the bank's local cash reserves at that point.

If I have made myself clear you will realize that the gold holdings of a bank, whether carried in Canada or elsewhere, are really an insurance fund against the payment of excessive exchange rates. The fund is used only to control the cost of the transfer of funds to other countries when the need is urgent for the bank's protection. These gold holdings have never been used for speculative operations but were accumulated and have been maintained as a true emergency reserve against legitimate banking transactions.

I wonder if you realize the volume of foreign exchange transactions which Canadian banks are called upon to handle in a year. Some idea of their magnitude can be gathered from the fact that in my Bank alone we handled inward and outward transactions during 1933 of an aggregate amount of nearly $400,000,000. Many of the contracts call for delivery of funds in sixty, ninety or one hundred and twenty days. The international situation under present conditions is so confused that much may happen within the time to interfere with the exact balancing of receipts and payments.

[Mr. S. H. Logan]

To turn now to the provisions of the Act. Upon the transfer of our gold to the Bank of Canada at its statutory price, we receive in exchange Bank of Canada paper dollars, or their equivalent in the form of a deposit in that Bank. This is excellent money in so far as our Canadian operations are concerned but these dollars have no stable value in any other currency. Perhaps at the time of the transfer we could buy pounds sterling in Canada at $5 each to protect our sterling commitments. It is quite conceivable, however, that at some later date we might have to pay $6 or more for the pound. The same situation may arise with any other currency which was required in an emergency. It might be necessary to pay a premium of 10, 20 or 30 per cent to secure the necessary amount. The banks are, therefore, exposed by the surrender of their gold to the risk of very substantial exchange losses, because they are deprived of the means by which they could protect themselves.

There is, it is true, a proviso in section 29 which ostensibly holds out a hope that under certain conditions some form of compensation for its confiscated gold may be given to a bank. This hope upon examination, however, is found to be completely illusory.

The conditions require a bank to satisfy the Governor-in-Council that the gold "was at the time of the transfer being held....against liabilities elsewhere than in Canada."

I have shown you that since the War all the gold owned by the banks may honestly be said to be held solely against liabilities outside Canada. I have also explained the nature of these liabilities and the manner in which we protect ourselves against them when need arises. You will, of course, recognize that the liabilities are purely contingent liabilities and that it would be quite impossible on any given date to make a valid estimate of their amount or of the cost at which they might be covered should this become necessary. Without definite figures to submit to the Governor-in-Council, there must be great uncertainty as to whether the claim of the banks will receive the favourable consideration to which they are justly entitled.

The section continues that if the bank is able to satisfy the Governor-in-Council of the legitimacy of its claim "the said profit shall belong to the chartered bank." I would point out, however, that even when satisfactory evidence is produced and accepted there is no assurance that the bank will receive any compensation for the section provides further that the profit which is to belong to the bank is that which will be derived by the Bank of Canada if it sells the gold, or if a change is made in the monetary standard of this country. Now it is conceivable that neither of these eventualities may occur, or that they might do so only after the lapse of some months or even years from the date of the surrender of the gold. Perhaps in that interval the present premium on gold may have shrunk or disappeared.

There is, however, another angle from which the question of the surrender of this gold to the Bank of Canada should be considered, and one which in my opinion deserves the most serious consideration of every member of this Committee.

I submit that it is grossly inequitable for the Government to say to one class of the community—the gold mines—"We will pay you the market price for your gold, less certain deductions," and to another class—the banks—"We will pay you only four-sevenths of the market value for your gold because it happens to be in the form of coin." The world markets make no such distinction and our gold is as much the property of our shareholders as the gold dug from a mine is the property of the shareholders of the mining company.

An impression exists that (ethics apart) Canada, if she commandeers from the banks gold without payment of the existing premium, will merely be following a precedent established in several other countries.

[Mr. S. H. Logan]

That, however, is not the case. In Australia the gold sovereign, the Australian pound and the pound sterling were on an approximate parity when the Commonwealth Bank took over two-thirds of the gold held by the trading banks. Those banks received, therefore, substantially the ruling price for the gold they surrendered and retained the balance of their holdings to do with as they saw fit.

Similarly when the commercial banks in the United States during the Spring of 1933 were required to surrender the gold which they held to the Federal Reserve Banks there was no premium in the world markets on gold over the United States dollar. The proportion of total gold in the United States held by the commercial banks was, however, small in comparison with the vast sums in gold already in possession of the Federal Reserve Banks. This gold had been acquired by those Banks over a long period in exchange for Federal Reserve notes, which are the obligations of the United States Government. When the revaluation of gold in the United States was made in 1934 most of the profit which accrued to the United States Government was derived, therefore from gold which was and had been for some years the property of the Government, and was held by the Federal Reserve Banks as agents of the Government.

The action taken by New Zealand is more nearly comparable to that proposed in Canada but the statutory requirements as to gold holdings by the banks in that country has no parallel in our own.

In pre-war days the trading banks in New Zealand were required by statute to maintain gold reserves for the protection of their note issues to an amount equal to at least one-third of those issues.

By proclamation during the War it was provided that notes of the trading banks should be legal tender and not convertible into gold until the proclamation was rescinded. The Governor-General was, however, empowered to require adequate security from the banks to ensure that when their notes again became convertible the banks would be in a position to redeem them in gold. In the event of default in gold payments by a bank the Minister of Finance was authorized to redeem its notes in gold.

It has been argued by the authorities in New Zealand that since the note issue privilege of the trading banks is now to pass to the Reserve Bank, this justifies the transfer to the latter of all the gold without compensation for the ruling premium. Whatever one may think of the merits of that argument in so far as the statutory gold holdings are concerned, the fact remains that some of the banks in that country hold very substantial amounts of gold in excess of the statutory requirements. In discussing the proposal in November last, the Editor of the London Statist made the following comment: "This line of argument may be legitimate regarding the minimum gold cover of $33\frac{1}{3}$ per cent which the banks have had to hold behind their notes, but it is hardly applicable to the banks' excess gold reserves." He stated that the Government would be very ill-advised to impose upon the banks an arrangement of so inequitable a character and suggested the following arrangement as a compromise: "Such gold as forms the legal minimum backing to the note issue could equitably be taken over at its par value for both the gold and notes have, since the depreciation of the pound, been valued by the banks conventionally at par. If, however, it is thought desirable to extend these powers of compulsory purchase to the banks' excess gold reserve, then the full market price should be paid."

Since in Canada there is no legal obligation upon the banks to maintain gold holdings, there is no parallel here to the transfer at par of the statutory reserves in New Zealand.

It is for these reasons that I protest strongly against the forced transfer of gold from the chartered banks at a figure far below that at which it is valued in the world markets, instead of at a price reflecting the ruling premium.

[Mr. S. H. Logan]

If the Government considers this gold is necessary for the successful operation of the Bank of Canada the Government should buy it at its fair market value, as is done in the case of gold from our mines, and dispose of it to the Central Bank on such terms as it may arrange.

The settlement to be made with the chartered banks should not be left indeterminate both as to time and as to the amount involved. To follow any other course would be a definite and unjust discrimination against the shareholders of the banks.

But there is another and larger aspect to the compulsory delivery by the banks of their gold at a price less than the market value. A working majority of the people of Canada, it is still true, retain an instinctive belief in the practical necessity of private property and of respect for the rights of its holders, of the keeping of contracts and of the maintenance and use of such imperfect instruments as courts and banks. The strong arm of Government may by statutory enactment compel such a delivery, but with this public example of a departure from what the common man will regard as fair and just, the reaction upon the observance and performance of ordinary obligations between individuals cannot but be unfavourable.

S. H. LOGAN.

By the Chairman:

Q. Mr. Logan, before you submit yourself to cross-examination, or before anybody answers you—if there is to be an answer—could you state in a brief sentence just what your position is. Epitomize it. I tried to follow you and I think I did, but I cannot remember it all.—A. I can take our own position. The Canadian Bank of Commerce have $12,500,000 of gold.

By Hon. Mr. Morand:

Q. In coin or bullion?—A. All in gold coin, and that gold is worth a premium to-day of 70 per cent. Now, that properly belongs to the shareholders of The Canadian Bank of Commerce. If gold went down to $10 an ounce then undoubtedly The Canadian Bank of Commerce shareholders would have to take a loss. On the other hand, here is the situation: Gold is worth to-day, or rather it has appreciated 70 per cent and yet we are not able to realize on it. Say that there is a profit of $8,400,000 for our shareholders; we would not have in mind giving the shareholders a bonus or something of that nature. We would use that premium to further strengthen our internal situation, and we would use it for that purpose and none other, and I have no doubt that all the other banks would do the same.

In connection with the turning over of the gold, as I understand the proposal of the Bank of Canada Act we turn our gold over to the Central Bank and we turn it over at par. At some later date, if gold is revalued and there is a profit, then the Government will have to determine what percentage of that gold was required for domestic purposes and what percentage was required for external purposes, and we would be given the appreciation, as I understand it, only on the amount required for the outside liabilities.

By Hon. Mr. Mackenzie (Vancouver Centre):

Q. That is determined by the Governor in Council?—A. Yes.

Q. Some of the bankers told me before in this investigation it should not be done. I think Mr. Dodds told me before that no banker can tell how much gold is required for domestic purposes.—A. It is all required for external liabilities. We do not need gold for domestic purposes.

By Mr. Geary:

Q. The liability is fixed at the time of the transfer.—A. Our argument is, that if the government takes our gold then they should take it at the market

price the same as they do with the mines, and then it is a matter between the government and the Central Bank as to what contract they enter into between themselves.

Q. They did not pay the premium if they shipped the gold out?—A. They pay the prevailing premium, whatever it might be.

Q. It seems to me that the value which pertains in the world to-day in respect to gold is wholly artificial.

Mr. HACKETT: It is no more artificial than the statutory determination of the value.

The CHAIRMAN: Artificiality consists of the arbitrary value.

Mr. HACKETT: Has it not always been an arbitrary value; you cannot eat it; you cannot wear it.

The CHAIRMAN: There is a market, however.

Mr. JACOBS: I cannot understand why the mines up in the Porcupine district should receive $35 something for their gold, and these institutions down here should get only $20.67.

The CHAIRMAN: That is the point.

Mr. IRVINE: The proper way to do it is to pay the digger of the gold the same amount as you are paying the banks.

Mr. JACOBS: Either it is worth $35 or it is not.

By Mr. Geary:

Q. How did you come by this gold?—A. We have had this gold for many, many years, since 1926-27.

Q. You have just been putting it aside?

By Mr. Raymond:

Q. Did you buy any at a premium?—A. No, all this gold we are talking about, about $40,000,000, has been held for many, many years.

When the Finance Act came in, we could borrow under the Act, and we did not require the gold.

Q. Is it included in your balance sheet?—A. Yes.

Q. At what price?—A. $20.67.

Q. There would be a decrease in your balance sheet of so much?—A. No.

The CHAIRMAN: They get Dominion of Canada notes?

Mr. WHITE (*Mount-Royal*): Mr. Chairman, is there not this further problem? The gold which the banks hold now, and which they have held for a very considerable number of years, was purchased with legal tender of Canada that had a value. It was at par, dollar for dollar. The banks in buying their gold bought it with legal tender that was worth $100 in gold. To put it another way, the Canadian dollar was at par with the United States dollar. There was no embargo, or restriction, upon the movement of gold, at that time. The proposal of this bill is to pay the banks the legal tender, which is worth to-day on the basis of gold, only 60 cents. Surely there is a point in that. The gold was bought with legal tender that was worth 100 cents in gold. The government proposes, with the consent of course, of Parliament, if Parliament consents, to buy that gold back from the banks with legal tender that is worth only 60 cents. That is the fact.

Hon. Mr. MACKENZIE (*Vancouver-Centre*): That is not the government's fault.

Mr. WHITE: That is the position. I say that is the fact, and it is absolute, undiluted, unadulterated confiscation, and nothing else.

Mr. IRVINE: Let the confiscation proceed.

Hon. Mr. MORAND: Why do you compare it with the United States dollar? Why not compare it with some of the depreciated currency in other countries?

Mr. WHITE: I am speaking of the cost of the gold in the banks. It cost them 100 cents in gold to buy the gold with a legal tender that was worth 100 cents on the dollar in gold; but the government in taking it over proposes to pay only 60 cents, whether a dominion note or legal tender. I say surely that is obviously unfair.

Mr. GEARY: How about mortgages?

Hon. Mr. MACKENZIE: That applies to all commodities.

Mr. HACKETT: No; the government is buying gold to-day and it is paying more than that.

Hon. Mr. RHODES: I should like to say a word upon the general principle. I think we are all disposed to do what is fair and just, although we might have a different point of view from that which Mr. White has just expressed. I may say I approached this subject with an absolutely open mind. Mr. Logan, in his statement, said the precedent we are attempting to follow in this bill has been followed in several other countries. So far as my observations have gone, and I have tried to cover the entire ground, I think it can be safely said it has been followed in every other country, and the reason for it, is, I think, set out as well as it can be set out, in the pamphlet entitled "The Reserve Bank of New Zealand and the Gold Question", issued by the Rt. Hon. J. G. Coates. In the first place he made his report to council, and here are some extracts from his report to Council of the Government of New Zealand, by the delegates to the Imperial Economic Conference, 1933. It says:

> It is the established practice of governments to take any profit or loss resulting from a revaluation of currency in terms of gold. The highest authorities in London and Europe have been consulted on this matter, and their opinion is unanimous. "The only fair and equitable price at which gold can be taken over from commercial banks by a central bank or by a government, the only price that can be justified, is the mint price. Any profits due to the revaluation of gold should go not to the note issuing banks, but to the government."

I am not going to quote more than those two paragraphs in that portion. Now, to quote a portion of the argument as outlined in this pamphlet. It says at page 5:

> The gold reserves of the trading banks are to be transferred to the reserve bank: that is a fundamental principle which is not questioned or disputed. Nor need there be any controversy over the technical ownership of the gold. No one can suggest, however, that the banks' ownership is absolute and unrestricted—it is conditioned not only by the banking legislation of this country, but also by accepted currency principles the world over.
>
> The Reserve Bank Act provides that the banks shall be paid £3 17s. 10½d. per standard ounce for the gold to be transferred to the Reserve Bank. This is the book value—the price the banks gave for it. They will lose nothing. Any profit that may in the future be derived from the sale of gold will be credited to the public account—that is, the profits will accrue to the people—not to the reserve bank. It is this section of the act which has caused the trading banks to protest. They consider that any profit on the sale of gold should not belong to the State nor to the reserve bank, but to themselves.
>
> The banks obtain their charters by legislation. they acquired their gold because of legislation, they held this gold as a backing for the notes because of legislation; the people were prevented by legislative enactment

> from claiming a sovereign for their bank-note, and by legislation also the people were prevented from exporting gold and silver coin from this country. Legislation now proposes that the community shall resume its rights. It surely must be abundantly clear that the whole position is, and always has been, governed by legislation; and no exception can now be taken on the score of alleged legislative "interference".

Mr. JACOBS: Why don't you confiscate the mines?

Hon. Mr. MACKENZIE: My objection is that by just transferring the gold—

Hon. Mr. RHODES: May I just finish that point? I think perhaps Mr. Clark, with respect to specific questions, would be in a better position to answer than I am. I wish to deal only with the general principles. I quote from another portion of this report, and my quotation is going to be very brief:—

> Furthermore it is a recognized principle that the value of the monetary unit and, in fact, monetary policy generally are entirely matters to be determined by the state, which must stand all losses involved and should take all profits accruing therefrom.
>
> Any profits that may be obtained from the sale of our gold reserves arise not out of banking, but first out of Great Britain's suspending the gold standard, and secondly, out of the depreciation of New Zealand currency in terms of sterling, both as matters of monetary policy. The premium on gold in comparison with the mint par value is the measure of the depreciation in the value of the notes. This depreciation has been at the expense of the people, and not at the expense of the banks. It follows that any profit on gold reserves arising out of government action should accrue to the state, representing the people as a whole.

Now, I may point out that the same procedure that we propose to follow in the Bank of Canada, with respect to the taking over of that portion of the gold which is not applicable to the outside business of the bank—and on that point I may say that that is a question of fact which, I think, can be adjusted in an equitable and fair manner—was done in France, Belgium, Italy, Yugoslavia, Roumania, Austria-Hungary, Portugal, Bulgaria, Finland and South America. The only exception to be found is the case of Greece, and I may point out with respect to Greece, what was said by a prominent banker in England, who in writing to New Zealand, said this:—

> I cannot think of any case in which the government has not taken the profit on the revaluation of note-issuing banks' gold reserves, except in the case of Greece, where a great mistake was made, as a result of which the Bank of Greece (a central bank) has never been able to function successfully. There is one case, that of Finland, where the profit on the revaluation of the gold holding at stabilization was used to increase the capital of the Bank of Finland (a State Central Bank).

In the case of Greece, in the last analysis, the state took half of the profit, if I mistake not. The state took a portion of the profit, ultimately, and the National bank was obliged to devote the remainder to the granting of long term credits to agriculture; so in the final analysis the country got the benefit, as is proposed to do in this bill.

That is all I have to say with respect to the general principle.

Mr. HACKETT: If it had not been for legislation precluding the export of gold, the banks would have lost their gold and in consequence would not have the profit on it to-day.

Hon. Mr. RHODES: I think you are referring to that particular point in the argument where it said the individual could not go to the bank and get a sovereign.

[Mr. S. H. Logan]

Mr. HACKETT: Yes.

Hon. Mr. RHODES: That is true.

Mr. HACKETT: Is that in strict accord with the facts, do you think?

Hon. Mr. RHODES: I do not think the banks' gold would last very long, if the individual holder of a note could walk in and ask for gold. There is no doubt about it in the world that it was the result of legislative action.

Mr. GEARY: They have the gold intact.

Hon. Mr. RHODES: That gold has remained intact.

The WITNESS: Where the Central banks took over the gold, I think it must be conceded in every case the gold was not selling at a premium at that particular time.

The CHAIRMAN: That probably is true.

Mr. CLARK (Deputy Minister of Finance): My recollection is it would be. Take France. When France revalued in 1927, or 1928, the franc was down to less than one-fifth of its former value. It was finally revalued at 3·93 cents.

The WITNESS: We are talking about the Central Bank taking over gold.

Mr. CLARK: The gold held in France at that time by the banks would have been worth in the internal currency of France, five or six times its statutory value.

Mr. WILSON (General Manager, Royal Bank of Canada): Did the commercial banks have gold at the time the franc was revalued?

Mr. CLARK: Certainly the Bank of France did. It is a private bank.

The WITNESS: We are talking about private banks.

Mr. JACOBS: As a member of this committee, I want to protest against the two yardsticks we have heard about to-day: one, $35 and some cents, and the other $20.67. I am still in favour of the principle laid down in the Bible that "Righteousness exalteth a nation." How can you possibly give one party who lives in Porcupine $35 and another in Montreal, or Toronto, $20?

Mr. CLARK: I think there is a distinction there, and the distinction is covered in one of the quotations which Mr. Rhodes read. The distinction is this: in the case of the mines they are producing a natural product, and shipping it out to the world market and getting the world price for it, less a pretty stiff tax.

Mr. JACOBS: Why don't you expropriate them; why don't you confiscate them?

Mr. HACKETT: Let him answer the question.

Mr. CLARK: In this case, 25 per cent of the premium is now confiscated, if you like, but the other case is the case of the banks. Why do the banks have gold to-day; why have they had gold? The reason is that they were given a public franchise by the Parliament of this country. One of the obligations of this franchise, as generally understood by bankers throughout the world, is that cash reserves have to be kept against their liabilities. The usual form of cash reserves is gold, under a gold standard system. Now, the banks in carrying out the franchise that was given to them by Parliament, carried a certain percentage of gold in order to meet liabilities, to meet demands upon them arising out of the liabilities that they had accepted as incident to their business. They did not buy gold in the first place to make any profit out of it. They did not buy it as an investment; they bought it as a cash reserve, and I do not see that they have any right to make any profit out of it, if Parliament comes along and changes the basic statutory price of gold.

Mr. JACOBS: You gave these mines in the north away for nothing, only a few years ago.

Mr. IRVINE: That was when the Liberal party was in power.

Mr. CLARK: There seems to me to be two entirely different situations.

Mr. JACOBS: They belong to the Crown.

The CHAIRMAN: In the right of the province.

Mr. JACOBS: A distinction without a difference.

The CHAIRMAN: Do I understand that one of the arguments against the banks' contention is that because the Parliament of this country has given a franchise to the banks, and among other portions of the franchise was the right to deal in gold coin, bullion, that therefore when gold became appreciated, parliament had the right to take away the gold at the cost price to the banks. That seems to me to be a *non sequitur*.

Mr. HACKETT: Not at cost price; at less than cost price.

Mr. CLARK: No.

The CHAIRMAN: At the cost price, because, I think that proximates the fact. I think it is a *non sequitur* because you gave the franchise you are entitled to take away something from them which has a greater value.

Mr. CLARK: You gave that franchise to do what? To carry on a banking and currency function. That is a very important privilege, which was given by Parliament. One of the obligations of that is that they should hold gold as reserves again liabilities. Now you come along—

The WITNESS: That is not right.

Mr. CLARK: It is not a legal obligation under our statute. We have not put in the law that specific obligation, but it is a customary obligation in banking throughout the world, without any doubt. If you asked any banker in this country, five or six years ago, he would have said he had to keep adequate cash reserves, including gold, against his liabilities. I think it is a well understood thing our banking legislation did not go as far as the banking legislation of some other countries, where a specific amount is required to be kept in gold.

Now, Parliament comes along and changes the statutory price paid for gold. It is the monetary unit of the country. If you raise, as Mr. Roosevelt has done, the monetary price of gold by 70 per cent, what you ultimately do is to raise the price level of the country by approximately 70 per cent, other things being equal. In other words, the people of the country pay for the change in price resulting in the cheapening of gold.

Mr. JACOBS: At whose expense?

The CHAIRMAN: The banks', with no resulting compensation to the shareholders of the bank.

Hon. Mr. MORAND: Why should the banks be put in any different position than where I was put when we went off the gold standard? If there was any gold in my possession the day the country went off the gold standard, it was confiscated to that extent. I was exactly in the same position the banks are now in, when we went off the gold standard. The banks refused to honour the bills in gold, which I had a right to assume they would over a long period of time. In that respect my wealth was confiscated in the same way that we are asking the banks to be now; and I cannot see why the banks should be in a position different from that of any other people in the country.

The CHAIRMAN: Two wrongs do not make a right. I cannot, for the life of me, see that the very fact that Parliament has granted a franchise to a group of people to run a bank, carries with it, as a corollary, the right to take away their property below the market price.

Hon. Mr. MACKENZIE: They would rather have the franchise given by Parliament.

The CHAIRMAN: I dare say.

[Mr. S. H. Logan]

Mr. Jacobs: Expropriate them; give them nothing.

Hon. Mr. Morand: The banks would not have any gold to-day had they paid me in gold.

The Witness: Perfectly true; but now you are taking away our shareholders' property.

Hon. Mr. Mackenzie: I am going to suggest that we do not vote on this question just now. I should like to ask Mr. Clark to answer a question which puzzles me. How can he assess the amount of gold required for external obligation against the remaining balance of gold, when the government takes over the gold contemplated from the banks, when there is only $40,000,000 in the country.

Mr. Clark: It would be difficult obviously to determine any specific amount. What you have to do, or what the Governor in Council has to do, is to take the domestic liabilities of the chartered banks on the one hand, and their foreign liabilities on the other hand, and see what actual cash reserves they have been keeping, make allowances for the greater hazard in the case of the foreign liabilities, and then come to, if you like, a rough and ready decision as to what would be a reasonable division between the portion of the gold reserve actually held against domestic liabilities and those actually held against foreign liabilities. You cannot determine it with mathematical exactitude, but I think a reasonable approach to the problem should result in a reasonable answer to it.

Hon. Mr. Mackenzie: My point is this, and this committee is being asked to pass a bill which is a very intricate problem. This bill will be passed, regardless of what we say here. By that bill the Governor in Council is going to fix a certain percentage of the banks' gold at a certain price. Out of that $40,000,000 how much of it would be worth $35 an ounce, and how much $20.67 an ounce?

The Chairman: Mr. Mackenzie, would you suggest that all banks be treated alike in their obligations, or that the individual banks be differently considered?

Hon. Mr. Mackenzie: Yes, all alike.

The Chairman: I think you will have to take each case by itself.

Hon. Mr. Mackenzie: They may work it out very carefully, as between the banks themselves.

The Witness: I take exception to Mr. Clark's contention in regard to outside and inside obligations. We do not need gold for inside liabilities at all.

Hon. Mr. Mackenzie: I don't think you need any gold, personally.

The Witness: We do need gold, if we get into a jam outside. Let us take outside liabilities. Let us take Canadian Bank of Commerce. At the moment, I would say $50,000,000 of those are outside liabilities. That Bank has outside foreign exchange contracts outstanding probably at the moment, of another $50,000,000, representing the import and exportation of goods from this country, all of which is covered by hedges; some is covered by hedges in the grain—

Hon. Mr. Mackenzie: Your theory is you need all your gold reserves for your exports?

The Witness: We need all our gold for our exports.

Hon. Mr. Morand: How much did you use in the last ten years?

The Witness: We try to buy our exchange so we won't need it.

Mr. Spencer: I should like to ask Mr. Logan this: Have any of the banks for years held gold against Dominion notes; did they need gold for internal purposes?

The Witness: No, we do not hold gold against our note circulation.

[Mr. S. H. Logan]

Mr. HACKETT: Before the Finance Act came in we had nearly 90 per cent coverage, we had nearly 90 per cent of gold, on the last entry in 1929 we were down to 28·4.

Hon. Mr. MACKENZIE: It was a different financing system entirely.

Mr. HACKETT: It just shows that what Mr. Logan says is true.

Hon. Mr. MORAND: At that time you were supposed to redeem your notes in gold; by Act of Parliament you have ceased to do so.

Mr. HACKETT: That is another point.

Mr. GEARY: The banks have $40,000,000 in gold now. What is the physical location of the $40,000,000?

The WITNESS: Some of it is in the central gold reserve.

Mr. GEARY: How much of it?

Mr. MACKENZIE: $5,181,732 in gold coin in central gold reserves.

Mr. SPENCER: I suggest, for the benefit of the reporter, that a little order be kept.

Mr. RAYMOND: In courts of justice, in the matter of expropriation of one party by another, the arbitrator decides the amount to be paid shall be the market value, but in this case it is not done. It is a matter of exproporiation, is it not?

Mr. CLARK: I tried to make the distinction that the gold held by the banks is not ordinary property held in the usual sense on which they expected to make a speculative profit as on invested property. They held it as reserves against liabilities.

Mr. RAYMOND: It was a good thing to protect the public.

Mr. CLARK: Yes it was, and the banks are being fully protected by the currency price now. They are not being asked to lose any money as a result of this.

The CHAIRMAN: They admit that.

Mr. WILSON: Mr. Chairman, the statement was made here last week that the gold the Canadian banks had were reserves against their liabilities, notes and deposits in Canada. The Central bank is being set up and therefore all that is being done was the transfer of those reserves from the chartered banks themselves to the central bank. The Minister of Finance quoted from a booklet regarding New Zealand, which we have all read, and referred there to the fact that the New Zealand Central bank took over the gold from the commercial banks. But I submit the cases are entirely different. First of all, in the case of New Zealand, by law those banks were required to carry that gold so long as they were doing business. They could not do otherwise but carry that gold. In Canada the last 20 years, we have not needed one dollar of gold. It is gold that we happen to have in the aggregate, $40,000,000. Therefore, since that gold which we have here is not a legal requirement, not a reserve legally required against our liabilities, in the very nature of things it becomes just one of a bank's assets; and I say, and I have not yet heard an argument which answers it, why do you take one of our assets because it happens to have appreciated in value, why do you take our gold from us at an arbitrary valuation and leave us with other assets that have depreciated for the very same reason that the appreciation in gold has occurred. It is illegal; it is wrong. For years, I have been telling people outside of Canada that Canada is a fine place in which to invest money. I still tell them that, and I want to continue to tell them; but I have on my desk letters written to me from shareholders outside of Canada. They say, we hear that you are going to start a Central Bank in Canada, and part of the plan is to take away your gold at a profit to themselves. What are they going to take next? Are they going to come around and take the unearned increment on your estate, and are they going

[Mr. S. H. Logan]

to leave you all the losses that have occurred during the last ten years? So far I have not been able to answer those letters. I was waiting until these deliberations had concluded, and I thought I would be able to answer those letters to those people better by waiting.

Mr. IRVINE: I am very much surprised at this whole discussion.

The CHAIRMAN: Did you not think this discussion was inevitable?

Mr. IRVINE: It has happened, and I suppose being inevitable, it just happened. I am surprised that there should be any attempt to justify paying the banks any more for the gold than its original value. I am glad for once to be wholeheartedly in favour of a clause in this bill that will be passed by this committee, and to be in sympathy with the government in having drafted it. I can appreciate of course, the attitude of the banks and bank managers. They naturally want to make as much profit for their shareholders as possible; but there is something more in this monetary principle than making money for any shareholder of any institution. As a matter of fact it is surely well known that the value of gold is purely fiat at any time.

The CHAIRMAN: Purely what?

Mr. IRVINE: Fiat.

The CHAIRMAN: Arbitrary.

Mr. IRVINE: Yes, and declared by statute, by the government. If the government declared that silver should take the place of gold to-morrow your banks would have to sell their gold to fill somebody's teeth; it would not be worth more than 5 cents an ounce. They may be very grateful to the government that has decided to pay them what they paid for it. I want to point out, as it has been pointed out already, that the banks invested in gold to assist them in carrying on business. It has been used for that purpose and served its purpose, and now the government decides to pay them the original values that it cost. Had not the government come to the assistance of the banks in 1914 the whole banking institution would have crashed. Surely, then, apart from any other consideration—

The CHAIRMAN: What has that got to do with it?

Mr. IRVINE: It has this to do with it that they would have lost both their gold and their privileges; and, therefore, when the government or the people came to the assistance of the banks at that time, if there were no other argument that should be sufficient to warrant them now taking over the gold at the cost price.

The CHAIRMAN: On the principle that one good turn deserves another?

Mr. IRVINE: Oh, no. I will probably make that clear as I go on. The alteration, as a matter of fact, in the value of gold, or the value of the dollar with which our gold is purchased in Canada is due entirely, perhaps, to the action of the banks themselves. Whether that action was determined by economic conditions or whether it was determined by deliberate volition of the banking directorates may be a point for discussion or argument, but the fact remains that the value of the dollar that the people of Canada have had to use for some time has been very greatly changed, and I suggest that the bankers have had more to do with the change in value than either the government or the people. In addition to that, the banks have had great privileges, as was implied in the argument quoted by the Minister of Finance, and their privileges, I think, perhaps are underestimated by the bankers themselves. It is surely unthinkable that after enjoying those privileges they are now to charge the people of Canada an artificial value for the gold for which they paid a much less amount.

The CHAIRMAN: It is an artificial value, but it is a real market value. It is artificially created, but it has a real market value.

[Mr. S. H. Logan]

Mr. Irvine: The point is that the people of Canada through the artificial value have had their debts doubled and trebled in some instances. Is there a man in this committee that will go before the people of western Canada and justify paying the bankers more than the cost of gold.

An Hon. Member: Or eastern Canada.

Mr. Irvine: I do not know so much about eastern Canada, but I would like to see the one who would do it.

The Chairman: If he were looking for votes I agree that you would not do it in western Canada, but that does not affect the principle.

Mr. Irvine: It is the principle I am trying to get at; it would be very difficult because of that principle for anybody to try to defend it. For instance, when the Canadian dollar was supposed to be on a gold basis debts were contracted in this country and had to be paid on the same values.

Mr. Jacobs: We paid them.

Mr. Irvine: You were lucky. At that time when a farmer contracted a debt he had only his produce to pay it with. When he contracted that debt let us say his wheat was worth $1.50 a bushel; now he has to pay that back with wheat that is sometimes worth less than 50 cents a bushel. Now, if we are going to make up to the bankers the variation in the price between the commodity with which they have to deal or have been dealing in then we shall have to make up to the farmers and to other people the alteration in the values of the commodities in which they must pay their debts, and that is all that can be demanded—it is reasonable that we should demand an arrangement of that sort. We cannot give a privilege to the banks in gold unless we extend that to every other person who is affected. But the most important evil is that the people, through the government, have suffered in Canada by having to pay more in other countries through this deflation or excessive value of gold than they had to do before, so that the people already had paid the difference in values.

Let me ask the bankers this: suppose the government decides to take this over at its present market value and two weeks after or three weeks after that it slumps back to where it was, will that increase the amount of money which the government paid for it?

The Chairman: That is a practical question. I have had that in my mind since the discussion started.

Mr. Wilson: Just leave us alone.

Mr. Irvine: If I were a banker I would want to be left absolutely alone. I can understand that, and I am not quarrelling with that position; but as a member of this committee and representing people who are directly affected, I must protest strongly against any alteration in this section of the Act.

The Witness: I maintain that we are not asking the government to pay us something that is not the market price. If the government wants to ship the gold out of this country, alright they can ship it out and get the premium, but why take one of our assets—why take one of our shareholders' assets and single it out because it is gold and say we are going to take that and take it below the market value.

Hon. Mr. Morand: You have never retained that as an asset?

The Witness: It is an asset of the institution. If gold went to $10 an ounce who would take the "poke in the eye"? We would.

Mr. Irvine: The answer to that is that money or gold as based upon the monetary system is different from any other commodity; it retains its value through the power, as I indicated, which a government grants; and they have the right at any time to alter that in any way they like. This is the only thing we have absolute authority over.

[Mr. S. H. Logan]

Mr. STANLEY: Coming back to the granting of charters. Charters were granted to the banks for carrying on a banking business. With that, of course, goes the idea of certain purposes. Now, did any Parliament of Canada grant the extensive banking privileges and all that goes with it in the way of currency and credit and so on? Were those privileges granted by Parliament in past days with the purpose of allowing the banks to go into the gold selling business, to increase or make profits on the holding of gold over a series of years, or in the gold speculative business?

The CHAIRMAN: Doctor, let me ask you a question: would it not be a perfectly legitimate transaction if it were possible for the banks to buy and sell gold bullion to-day?

Mr. STANLEY: Let me ask you a question: in the granting of charters to banks by this Parliament or preceding Parliaments, was there ever the purpose of the banks procuring gold and holding it for the purposes of making profits? I do not think it entered into the minds of any person representing the people of this country in this Parliament that they would be granting to the banks privileges under their charter that would enable them to take advantage of large profits that would accrue because of a certain situation?

Mr. HACKETT: Look at section 75: "The bank may engage in and carry on business as a dealer in gold and bullion." That is one of the purposes.

The CHAIRMAN: It is a transaction under the Act.

Mr. STANLEY: One of the transactions under the Act. They may deal in gold specifically under the purposes of the Act. Now, the purpose of the Act was in carrying on a banking business. You see, the purpose of the Act set out two different things altogether.

Mr. HACKETT: You are wrong, doctor; but you are a good lawyer.

Mr. STANLEY: No, excuse me, I have it right here. There is nothing in this Act which enables the bank to deal in gold with the idea of going into the gold mining business or gold speculative business and dealing with gold on the basis that any other gold dealer can, nothing at all; it was never presumed and if I read the purpose of the Act, it was never for one moment thought or presumed or set out in the Act that the bank should go into the gold handling business for the purpose of making a profit on that business.

The CHAIRMAN: That is not my understanding of it.

Mr. HACKETT: The French version of the Bank Act says "faire le commerce"—go into trade or commerce of gold.

Mr. STANLEY: In connection with bank business only in as far as the handling of gold has to do with the transaction of legal banking business as included in the charter years ago.

Mr. HACKETT: You are a good lawyer.

Mr. STANLEY: I am no lawyer at all, but I am trying to get a little common sense in this. Let me go one step further. That being the case, that being the purpose of the charter, that being the understanding of the Parliament which granted these charters, that being the principle which was set down and the only reason that would justify this Parliament giving such extensive privileges to the banking business. Is this Parliament now justified in making a retroactive action so that banks can benefit by profits which were never meant to belong to the banking business. Those profits belong to the Parliament of Canada, to the people of Canada, to the public treasury; and not to the treasuries of the banks.

Mr. JACOBS: Why? Let me ask you this question: suppose they bought a shack on a corner property in the west, say Calgary for instance, and in due course the property became extremely valuable, and the government needed it

for certain purposes and expropriated it. The parties go before a board which decides what the value of that property is and they pay the value of it without regard to what was paid originally for it.

Mr. STANLEY: The Bank Act specifically states to what extent they shall buy real estate and how they shall build buildings for the purpose of carrying on their banking business, and it also specifically states that they shall not go beyond that. Why ? Because the purpose of the banking business was just to keep away from that sort of business, and it emphasizes the argument I am trying to make that the purpose of the banking business was to keep away from speculating in gold—not handling it as a commercial investment (or speculation) but handling it for the specific purposes of the Bank Act.

The WITNESS: We are not speculating in gold, you missed your point there. The Bank of Canada takes away our gold. It takes away our insurance to look after our liabilities in the future. Now then, when the Bank of Canada goes into action, and we find two years from now we have certain unexpected contingencies arise, we have to go into the market and buy New York funds at whatever the price may be—$20, $30, or $40 premium, the present premium is dear enough—once our gold is gone; we have no objection to your taking gold now, if you take it at the market price, we will take whatever the profit is in external securities of some kind, just so we can carry on outside.

By Mr. Irvine:

Q. Can't you secure gold from the Central Bank?—A. Can't you secure gold? Yes, but why should they take our gold?

Q. Then, you are misrepresenting the situation; maybe not misrepresenting it, I think you are not explaining it very clearly when you suggest that if this goes on the chartered banks of Canada would not be able properly to meet obligations in foreign countries?—A. We have no guarantee that the Central Bank will give us gold.

Mr. GEARY: It seems to me that Dr. Stanley brought up a pretty strong point about the banks; that is, you are taking away their assets at a price that does not represent its value at the moment, but they would not take buildings. A distinction is made between gold and other assets. It seems to me that is what we have to make up our minds about. It seems to me that that is the whole genesis of the matter under discussion. I think what Mr. Hackett says as to engaging and dealing in gold does not apply. The banks and their branches are not carrying on business as dealers in gold, they deal in discounts and so on; it is not dealing with it in the sense of selling or bartering in commodities, it is not bought and bartered in as a commodity. How are we going to distinguish between the taking of gold, and other assets.

Hon. Mr. MACKENZIE: Would the government sell them a determined amount of gold required to meet external obligations; the chartered banks would then get the increased market value of that operation. Is that not correct?

Mr. CLARK: Not at that time. When the profit has been determined, as on resale by the Central Bank sending gold out of the country and realizing a higher price on it; or as a result of the government of Canada amending the Currency Act and establishing a higher price for it.

Hon. Mr. MACKENZIE: Would the government, through the Central Bank, return such gold value to the banks?

Mr. CLARK: No, they would merely give the chartered banks credit on their books, or Central Bank notes.

The CHAIRMAN: That is the answer to that.

[Mr. S. H. Logan]

Mr. CLARK: May I just make one additional comment: much of the argument that has been made against this particular provision would apply with equal force against a prohibition on the export of gold except under licence, which has been in existence since October of 1931. At that time, and since that time, we have prohibited the export of gold. We have prohibited, or suspended, the redemption of Dominion notes in specie. If that action had not been taken, and if further action had not been taken, we might ask where the gold now held by the banks would be. I mean, if the public had had the right to redeem, or if the country had had to meet its external obligations in the form of gold, if gold had been allowed to be freely exported, where would your gold be to-day?

Mr. COOTE: I regret that I missed a good deal of this discussion.

The CHAIRMAN: I was worrying about you.

Mr. COOTE: Well, I will take a laugh at my expense, and go on. The point which I would endeavour to make may have been mentioned before; if so, I do not wish to delay the committee. But the main purpose for which gold is held is to redeem notes. I do not think that can be denied.

Mr. BOWMAN: Mr. Logan said, no.

Mr. COOTE: Let us go back to the time when we were on the gold standard. No one could get gold unless he presented notes for it. Gold was the only thing that was legal tender at the office of the Assistant Receiver General.

Mr. IRVINE: That is the point.

Mr. COOTE: The banks did have the privilege of issuing, but these notes were payable in legal tender—and legal tender, of course, was a Dominion note—but the Dominion note was not legal tender at the office of the Assistant Receiver General. It was for other loans. The whole thing is unrelated, that is what I want to get at; and I do not think that the banks would ever have had the right to issue notes without guaranteeing to redeem them in gold.

The WITNESS: Or legal tender.

Mr. COOTE: Yes, or legal tender, and the legal tender was redeemable in gold.

Mr. GEARY: They got legal tender for gold.

Mr. COOTE: Don't forget that in 1931, or some time since then, the government refused to redeem their obligations in gold; refused to redeem these Dominion notes in gold. Now, if your government are right in doing that, the government is depriving me of the right to get gold for my legal tender.

Mr. IRVINE: Hear! Hear!

Mr. COOTE: Sure the government has exactly the same right to deprive the bank of that gold.

Mr. IRVINE: Hear! Hear!

Mr. COOTE: I cannot see the difference of the position that the public is in and the banks are in in this connection. The main purpose of gold through history has been to make these notes good; the people thought that the note represented gold, that gold could always be gotten for it; and that is one reason why bank notes have always passed unquestioned.

The CHAIRMAN: Will you allow me? Do you think the statement you have just made follows from the premise you have laid down. I do not think you are quite right, or logical.

Mr. COOTE: I do not pretend to be logical.

The CHAIRMAN: That is a queer statement.

[Mr. S. H. Logan]

Mr. COOTE: If it is necessary to be logical, I hope I am; I do not know whether I am or not. I am trying to see the position of the banks as compared with the position of the public. Now, a man owed debts in the United States payable last September; before the 31st of September if he had legal tender he could go and get gold and send that gold out of Canada to pay these debts that he owed outside; but after the government took that action he could not do so, gold at that time was placed in a special position where it could not be dealt with under the order of the government; and I think the order of the government which prohibited me getting gold for my Dominion notes should apply to the banks, and the banks should not get it—should not get the right to get that increased value on gold.

The CHAIRMAN: What you want is the same kind of an order applied to the banks as is applied to you?

Mr. COOTE: But the effect of this is exactly the same, it is the effect I am trying to get.

The CHAIRMAN: Don't they stand on a little different basis?

Mr. COOTE: They stand on a different basis, they always do when we come to consider these questions.

The CHAIRMAN: I did not mean it that way.

Mr. COOTE: What way did you mean, Mr. Chairman?

The CHAIRMAN: I mean it in this way, the banks have an article which is worth so much in the market.

Mr. BOWMAN: But that is only the result of legislation.

The CHAIRMAN: No.

Mr. BOWMAN: I submit that because of the legislation of 1931 gold has the value which it has to-day.

Mr. HACKETT: I do not think that is quite the way to say it, that it has value because of the legislation of 1931.

Mr. JACOBS: I would ask Mr. Coote this question: Is he in favour of the government stepping in and passing legislation which would take property from one private institution and hand it to another private institution?

Mr. IRVINE: That does not bear on the subject.

Hon. Mr. RHODES: The property goes to the government.

The CHAIRMAN: Mr. Jacobs' question is fair, it is property taken from one and given to another; you are dealing with property.

Mr. COOTE: You are talking about the only commodity in Canada that has had a price fixed by law. Why change prices now for the sake of the chartered banks?

The CHAIRMAN: We cannot settle this to-night. Everybody wants time to read all this. Let's adjourn until Tuesday at 10 o'clock.

The Committee adjourned to meet again on Tuesday, June 5, 1934, at 10 o'clock.

HOUSE OF COMMONS,

June 5, 1934.

The Select Standing Committee on Banking and Commerce met at 10 a.m., Mr. R. B. Hanson in the Chair.

The CHAIRMAN: Gentlemen, will you come to order; we have a quorum.

Mr. Rhodes wishes to file some notices of motion with respect to the Quebec Savings Banks Act, so that the members can study them before we take up the bill to amend that Act.

Hon. Mr. RHODES: I am filing a complete list of twelve altogether; three of them are already on file. I do not think any of them are contentious.

The CHAIRMAN: When we adjourned on Thursday we were dealing with section 28, Valuation of Gold, and the Deputy Minister wishes to be heard in reply to Mr. Logan.

Mr. W. C. CLARK (Deputy Minister of Finance): Mr. Chairman, I hope that what I have to say will not be regarded as too critical of the memorandum submitted by the banks. It does seem to me that they have overstated the case in that memorandum, and on further consideration I think they will propably agree.

"The brief submitted to the Committee on Banking and Commerce on May 31, 1934, by Mr. S. H. Logan on behalf of the Canadian Bankers' Association presents the bankers' case against the provisions of the Bank of Canada Act whereby the gold now held by the chartered banks is to be transferred to the Bank of Canada and any profits arising out of the sale or revaluation of such gold held against domestic liabilities is to accrue to the Government of the Dominion of Canada.

The brief attempts to establish six main points:—

1. That "since the War all the gold owned by the banks may honestly be said to be held solely against liabilities outside of Canada."

2. That such gold is "really an insurance fund against the payment of excessive exchange rates."

3. That under the terms of Bill No. 19 it is doubtful if the banks will receive a profit on any of the gold transferred to the Bank of Canada because of (*a*) the impossibility of determining the amount held against foreign liabilities and (*b*) the fact that the premium on gold may have disappeared before final settlement is made.

4. That it is inequitable to deprive the banks of the premium on gold while allowing the gold mines to obtain the world price for their current product.

5. That the practice of other countries does not provide a precedent for the action contemplated by Canada.

6. That the proposed action constitutes an unjust infringement of the rights of private property and will be unfavourably regarded by the majority of the people of Canada.

[Mr. W. C. Clark]

These six points will be critically examined.

1. *In the first place is it true that all gold now held by the banks is held solely against their foreign liabilities?*

Let it be said at once that if this claim be true it introduces a novel and revolutionary conception of the nature and extent of the gold reserves held against the outstanding paper money and bank deposit liabilities of this country.

If it be true, it means that the percentage of gold reserves held against our domestic credit liabilities is substantially smaller than it has ever been believed to be either in official or financial circles or amongst the expert commentators on the working of our financial structure. It means, for instance, that the only gold against our 170 millions of Dominion notes, our 140 millions of bank notes and our approximately 1,900 millions of bank deposits in Canada, not to mention subsidiary currency and the demand liabilities of other types of financial institutions, is the 70 millions of dollars of gold which the Department of Finance has been maintaining as the required statutory reserve behind our issue of Dominion notes. This, if true, would appear to justify the criticism which has been directed by certain economists against the Finance Act, but which has hitherto been keenly resented by the banks. That criticism was based on the belief that the Finance Act created a dangerous division of responsibility between the Government and the banks in connection with the maintenance of an adequate gold reserve for Canada. The bankers' brief would seem to throw the whole responsibility on the Government although that responsibility has never been fully accepted and the Finance Act itself made no provision for requiring a reserve against advances under the Act.

If the claim be true it means that the reserve maintained against the foreign liabilities of our Canadian banks is substantially greater than it has usually been considered to be. Not only that but it is abnormally large as compared with the domestic cash reserves of our banking system. As at March 31, 1934, deposits elsewhere than in Canada amounted to just under 321 million dollars, and balances due to banks in other countries 28 millions. To these should be added a small amount of notes in circulation in the British West Indies. If we estimate the latter at 5 millions, we have the total foreign liabilities of our Canadian banks aggregating approximately 354 millions. On the other side of the balance sheet we find the following short term foreign assets: gold held elsewhere than in Canada, almost 10 millions; United States and other foreign currencies, 20 millions; balances due from banks and banking correspondents elsewhere than in Canada, 86 millions; and call and short loans (chiefly in New York), 106 millions. The last two items are, of course, not cash in the sense of gold and legal tender but it will not be denied that they should be almost immediately realizable in the form of foreign currencies. Nor will it be denied that the item "Canadian municipal securities, and British, foreign and colonial public securities other than Canadian", amounting to over 136 million dollars, also includes a considerable volume of British Treasury bills and other governmental short term securities that are quickly realizable in foreign currencies. Of course no claim is made here that these foreign short term assets would not also be available for Canadian liabilities, at least in large part and possibly after a short lapse of time. Our only contention is that, if in addition to this very large total of foreign cash and quickly realizable assets, all the gold now held in Canada (perhaps 31 or 32 millions under the item "Current gold and subsidiary coin in Canada", and over 5 millions in the central gold reserves) is to be regarded as being solely against liabilities outside of Canada, then the cash and quick reserves of Canadian banks held against their foreign liabilities are extraordinarily high and apparently very much

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out of line with their cash reserves held in Canada. In passing it may also be noted that several of the Latin-American countries in which our banks have foreign branches require by law that substantial cash reserves be kept within the country concerned, in some cases with the Central Bank, e.g. Colombia, 25 per cent against current accounts, 20 per cent against savings accounts and 12½ per cent against time deposits, all to be carried with the Central Bank; Peru, 20 per cent against demand obligations, 8 per cent against time obligations; Venezuela, 10 per cent against deposits held in gold coin under joint custody of the bank and a representative of the Minister of Finance; Brazil, all cash in excess of 20 per cent of deposits must be carried with Bank of Brazil. It is also understood that where no local law stipulates the amount of cash reserves to be kept, substantial cash reserves are as a matter of practice maintained "on the spot", in addition to the substantial sterling and dollar reserves already noted. Thus, there would appear to be no sufficient reason for considering the gold held in Canada as being held solely against liabilities outside of Canada.

Again, if the claim made in the bankers' brief be valid it must mean that the policy followed by Canada during the past 2½ years is wrong and unjust and based on an erroneous interpretation of the structure and working of our financial system. On October 19, 1931, an order in council was passed prohibiting the export of gold except under license. Later by an amendment to the Dominion Notes Act and a consequential order in council, the redemption of Dominion notes in specie was suspended, thus putting a legal seal on a de facto situation which had existed for some time. These measures were taken in part because it was believed that our national gold reserves were not unduly large and that unrestricted export of gold and redemption of currency would have resulted in such gold outflows as to have brought our gold reserves below the danger point. In granting licences for the export of gold, the Department's policy has been to allow the export of newly-mined gold but to safeguard the country's monetary reserves to the maximum possible extent. If the contention of the bankers be correct, they should have directed their criticisms against a policy which has been in effect for 2½ years and which it has been understood has met with their approval.

While, therefore, the claim of the banks that their Canadian gold reserves are held solely against their liabilities outside of Canada cannot be admitted, this of course does not deny that the primary need for gold in Canada is to meet possible deficits in Canada's balance of international payments. According to the modern conception this is the real purpose of gold holdings.

2. *The second point in the bankers' brief is that the gold holdings of the banks are primarily an insurance fund against the payment of excessive exchange rates and are used only to control the cost of the transfer of funds to other countries when the need is urgent for the bank's protection.*

This argument is developed in considerable detail and an unreal emphasis is laid on the possibility that a shipment of goods covered by a bill which the bank has purchased may go astray, or some suddenly imposed import embargo or quota regulation might delay or prevent the arrival of the relevant goods. It is respectfully submitted that upon further consideration the banks would probably not care to rest their case on so tenuous a basis.

However, considering the argument for what it is worth, it may first of all be noted that the need for such an insurance fund against the danger of excessive exchange rates exists only in a period of depreciated currencies and fluctuating exchange rates such as the present. Where the gold standard is in operation, no excessive exchange premiums could exist. Consequently there would appear to have been no reason for any gold reserves maintained by the banks prior to the breakdown of the gold standard three or four years ago.

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Again, in view of the prohibition against the export of gold still in force it is difficult to see how the gold held in the banks' vaults in Canada can now be regarded as performing the functions outlined. As already stated, this restriction has been in effect since October, 1931, and was imposed in the public interest when the world financial crisis threatened danger to our monetary gold reserves. It is true that small amounts of bankers' gold were allowed to be exported during times of financial disturbance in two or three foreign countries, but while the danger of a panic in another country causing a demand for gold is mentioned in the bankers' brief, the emphasis appears to be laid not on this contingency but upon the possibility mentioned above. Whether or not the central bank is established, the embargo on gold exports will probably be continued during the present period of chaotic exchanges and the banks will not likely be allowed to export gold for the purpose mentioned. Should Canada return to the gold standard it will of course be the function of the Bank of Canada to provide any gold that may be required for the purpose of meeting external obligations. One of the primary functions of a central bank is, as stated in the preamble, to control and protect the external value of the national monetary unit.

Moreover, it has already been shown that as a matter of long established practice the banks maintain substantial amounts of cash and readily realizable assets in the large financial centres, New York and London, and in the countries in which they have foreign branches. In these foreign assets will be found the insurance fund against the payment of excessive exchange rates and the means used to control the cost of the transfer of funds to other countries. As stated in the brief, a bank when it purchases an item drawn in any foreign currency always hedges the transaction at once by the sale of an equal amount in the same currency. The substantial volume of cash and secondary reserves [illegible]gn in foreign centres should provide an adequate safeguard against the continually of a lack of coincidence between the date upon which the bank agrees to deliver the amount of the foreign currency which it sells as a hedge and the date upon which it receives payment for the foreign bill which it has purchased.

3. *As a third point the bankers' brief professes to entertain doubts that the banks will receive a premium on any of the gold transferred to the Bank because of the difficulty of determining the proportion of the gold which may be regarded as held against foreign liabilities.*

If the banks have a meritorious case it should not be difficult to demonstrate it to the satisfaction of the Governor in Council. It will not, of course be easy to determine with mathematical exactitude what specific proportion of their gold reserves is held against foreign liabilities and what specific proportion against domestic liabilities. A careful examination will have to be made of the nature and extent of both the domestic and foreign liabilities and the nature and extent of the various types of reserves, primary and secondary, held by the banks in Canada and in foreign centers. Perhaps some allowance may have to be made for a possibly greater hazard in the case of foreign liabilities. The final decision may be only a rough and ready one, but it is to be assumed that a frank submission of all the facts in the case and a reasonable approach to the problem on the part of both the banks and the Governor in Council will result in a reasonable answer. The problem is not unique in the experience of governments but is of the type that is constantly arising and constantly being settled to the mutual satisfaction of the parties concerned.

Moreover, to the further objection that the premium may have disappeared before final settlement for the gold is made, it is only necessary to point out that in retaining possession of the gold under the present gold embargo measures the banks would be open to precisely the same eventuality, that is to say, the requirement that the banks transfer their gold to the Bank of Canada does not

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impose a new risk to which they would otherwise not have been exposed. There is, it should be mentioned, the other possibility, perhaps a probability, that the premium will increase, in which case the banks will stand to make a substantial gain through the postponement of a final settlement.

4. *The fourth contention is that it is inequitable to deprive the banks of the premium on gold while allowing the gold mines to obtain the world price for their current product.*

This contention reveals a singular lack of appreciation of the vital distinction between gold which is part of the national monetary reserve and gold which is currently produced as an industrial commodity by the gold mining industry. In the first case the gold held is not an ordinary asset of the banks; it was not bought for investment but rather as an obligation arising out of the currency and banking functions which the banks were given the right to perform by the Parliament of this country. Since gold has been our monetary standard the banks have found it necessary to carry a suitable amount of this metal in order to discharge their obligations to the public. These obligations are unaffected by the rise in the price of gold and the previous reserve is still intact. While it was necessary in the Bank Act to give the banks power to buy and sell gold in order to enable them to purchase gold for their reserves and to sell gold in order to meet their obligations, it is obviously no part of the business of banking to engage in the purchase of gold with a view to speculative profit. Under normal gold standard conditions the only variation in the price of gold in terms of domestic currency is the narrow fluctuation between the gold import and the gold export point.

In the case of gold currently produced by the mines, the miners are in the business of producing gold from our natural resources solely in anticipation of making profits. They assume the ordinary risks of an industrial enterprise and are in a comparable position to any industry exporting its product to a world market. Fortunately for them, they have at present the advantage of having an unlimited market for their product at a price which is substantially higher than that of a few years ago. Over a period of time, however, their costs of operation will adjust themselves to the new conditions and during a period of boom the gold mines will suffer as they always do from the fact that the price of their product is fixed while the cost of their labour and materials is steadily rising. Moreover, in the case of a considerable proportion of our current gold production the total cost of producing and marketing an ounce of gold is already in excess of the rate of $20.67 per ounce which was the cost to the banks of the gold now held by them.

It may also be noted that the Government has already recognized that the gold producers are in a more favourable position than other producing industries, and has seen fit to make this the justification for taxing the dividend-paying mines to the extent of 25 per cent of the gold premium received on the sale of their current product. But this tax has been so devised as to interfere as little as possible with the incentive to expand the production of this important article of export under present favourable conditions. No other industry is in a position to make so important a contribution to the national income at present.

5. *In the fifth place the claim is made that the experience of other countries cannot be drawn upon to provide a precedent for the action contemplated by Canada.*

In this connection the statement is made that in Australia the gold sovereign, the Australian pound and the pound sterling were on an approximate parity when in December, 1929, the Commonwealth Government passed legislation taking over the gold held by the Australian banks. Consequently, the banks received substantially the ruling price for the gold they surrendered. In quoting

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this example the brief overlooks the point that if the Australian pound and the pound sterling were at a parity with gold, there would have been no premium of which the banks could have been deprived and the point under discussion could not have arisen. Actually there was a small premium which rapidly increased during the next year or more until it reached 30 per cent. The Australian case is no exception to the record of historical cases cited by the Minister of Finance last Thursday; legislation was passed empowering the central bank to take over the gold reserves of the private banks and the gold was taken over at the statutory mint price.

The second example cited is that of the United States. It may be true that when the Presidential order was issued on April 5, 1933, requiring all banks to deliver all their gold to the Federal Reserve banks there was no premium in the world markets on gold over the United States dollar. But this merely means that at that time the question with which we are confronted, that of profits on the transfer of gold, did not arise. The brief goes on to state that "The proportion of the total gold in the United States held by the commercial banks was, however, small in comparison with the vast sums in gold already in possession of the Federal Reserve Banks". This is presumably intended to imply that in the case of the United States the transfer was in the nature of a minor operation. Anyone acquainted with the banking system of the United States knows that the member banks have no occasion to hold gold in their own vaults. Their reserves are by law kept in the Federal Reserve Banks *which are in turn owned by the member banks.* However, the action taken by the President in April, 1933, was not comparable to our own case. The gold was demanded at that time simply as an *anti-hoarding* measure. The major operation comparable to our own case occurred in January of this year when the United States Government took over the gold from the Federal Reserve Banks—that is, the *gold indirectly owned by the member banks*—at the statutory mint price, with the premium going to the Government. The gold so taken over was the property of the Federal Reserve Banks, held by them under the law requiring 35 per cent against deposit liabilities, and 40 per cent against Federal Reserve notes which, while formally obligations of the United States Government are nevertheless liabilities of the Federal Reserve Banks and have a first and paramount lien on all their assets. It is misleading to say that all this gold held by the Federal Reserve Banks against their demand liabilities was the property of the Government and was held by the Banks as agents of the Government. If this had been the case, there would have been no objection raised to the Government taking over its own gold. The action of the United States establishes a clear case of precedence for the course which we propose taking.

The third example cited was that of New Zealand. An attempt here is made to show that the cases are not parallel because in the case of New Zealand the banks had been required by *law* to maintain reserves while in Canada there exists no legal compulsion to hold any reserves whatsoever. This argument cannot stand analysis. Everyone knows that the banks are compelled to maintain reserves and that if they did not voluntarily do so as a matter of sound banking management they would promptly draw down legislation that would ensure it. Furthermore, while it is undoubtedly true that many of the banks in Canada have not in their possession at the present time the amount of gold which they would have to keep had legislation similar to that prevailing in New Zealand been in force, it is difficult to see the logic in the argument that the favoured position which our banks now occupy because of the absence of legal reserves should now justify their exemption from the treatment applied to New Zealand banks which were required by law to keep gold reserves.

In oral discussion the statement was made that in France and other countries which have revalued their currencies and have taken over the gold of

banks, no premium existed at the time of the transfer of the gold. That is not true. In France at the time of the stabilization of the franc in 1928, the premium on gold in terms of the franc was several hundred per cent. The real reason for revaluation of gold in all these cases was the fact that the currency had depreciated with a resultant substantial premium on gold. The facts in regard to France, Belgium, Italy, Yugoslavia, Roumania, Austria-Hungary, Portugal, Bulgaria, Finland, Greece and several South American countries are briefly summarized in the New Zealand booklet from which Mr. Rhodes quoted last Thursday.

In this connection the following summary may be quoted from this booklet:—

> It is the established practice of Governments to take any profit or loss resulting from a revaluation of currency in terms of gold. The highest authorities in London and Europe have been consulted on this matter, and their opinion is unanimous:—
>
> > The only fair and equitable price at which gold can be taken over from commercial banks by a central bank or by a Government, the only price that can be justified, is the Mint price. Any profits due to the revaluation of gold should go not to the note-issuing banks, but to the Government.
>
> A central bank official, whose authority is beyond dispute, and who is familiar with recent developments throughout the world, writes, inter alia, on this point:—
>
> > I cannot think of any case in which the Government has not taken the profit on the revaluation of note-issuing banks' gold reserves, except in the case of Greece, where a great mistake was made, as a result of which the Bank of Greece (a central bank) has never been able to function successfully. There is one case, that of Finland, where the profit on the revaluation of the gold holding at stabilization was used to increase the capital of the Bank of Finland (a State Central Bank).
>
> The conclusion reached on the matter is therefore that the Government should take over the gold at par value.
>
> Following further discussions on central banking with the British authorities, the delegation report the relevant expression of opinion on the gold question:—
>
> > The Reserve Bank must enter up the gold at book value . . . . any profit or loss accruing from the adjustment should be taken by the Government.
> >
> > This method might prove politically impracticable, but no event could justify any payment to the other banks for the gold taken over involving an amount greater than the present book value of the gold. Any profit or loss accruing on transfers of this kind should be taken by the Government. If the gold is taken over at par the banks will suffer no loss. No case whatever can be made out for the banks to share in this gain.

6. *The final argument offered by the bankers' brief is that the proposed action would constitute an unfair and unjust infringement of the rights to private property and that it will be unfavourably regarded by the majority of the people of Canada.*

In this connection it is fair to ask whether the banks are being treated any differently in regard to gold held than would be an individual in possession of gold coin. An individual turning in gold coins to the banks or to the government

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is "credited" for it at the statutory mint price and no more. He obtains no premium. The banks are required to deposit their monetary gold with the Bank of Canada and they will in turn be credited with it at the rate applicable to its customers. Rather than regarding it as probable that the people of Canada will look upon this unfavourably, there is every reason to believe that the Government would be exposed to widespread censure, and rightly so, if it followed any alternative course.

B. *Positive Argument.*—We may conclude by summarizing as briefly as possible the positive argument for taking over at the statutory mint price that part of the banks' gold holding which is held against their domestic liabilities.

There are four major arguments:—

1. The gold now held by the chartered banks against their domestic liabilities was acquired by them as a counterpart to the essentially national function of issuing currency. The chartered banks have been given by the Parliament of this country an important franchise; that franchise gave them, first, the right to issue notes to circulate as currency which is usually regarded as a prerogative of the State alone, and, secondly, the right to circulate their own credit by means of cheques drawn against deposits and to carry on all the ordinary operations of commercial banking. It is universally recognized that the exercise of these privileges involves the obligation of maintaining cash reserves (in the form of gold and other legal tender) against the liabilities assumed. In most countries the banking laws stipulate a definite minimum percentage of gold (or of gold and gold exchange or other legal tender) that must be held against either notes or deposits outstanding, or against both note and deposit liabilities. In Canada Parliament has seen fit to leave the exact proportion of cash reserves to be carried to the good judgment of the banks themselves and in doing so has accepted an argument which has been strongly pressed by our bankers throughout our entire banking history.

It should be clear therefore that the gold which the banks hold was acquired by them in order to ensure their ability to discharge their obligations to the public. It was not bought as an ordinary investment and no speculative profit could legitimately have been anticipated. The argument therefore that the Government's decision to take over the banks' gold reserves at the statutory price which was paid for it involves confiscation of property rights and suggests that such confiscation might be extended to other bank assets is entirely beside the point.

2. The *national aspect* of the banks' gold holdings was recognized and emphasized by the prohibition of the export of such gold without a licence imposed by the order in council of October, 1931. This order is still in effect and as a result the banks are still unable to export their gold and secure a profit thereon, without a licence from the Minister of Finance.

3. The profit on the gold now held by the banks is a fortuitous one. It does not arise out of the operations of commercial banking. It is the result of a national and international situation from which the banks have no reason to expect any profit. In this connection it is not sufficient to say that it is the result of the currency action and financial policy of *other* countries, especially England's departure from the gold standard and the revaluation of gold by the United States. If Canada had not seen fit to break away from the gold standard by the prohibition of gold export and the suspension of specie payments, in other words, if Canada had been willing and able to stay on gold at the old parity, there would to-day be no premium on gold in terms of Canadian currency. The premium that now exists results from Canadian monetary policy applied in the face of a serious world situation.

[Mr. W. C. Clark]

The premium on gold in comparison with the mint par value is the measure of the depreciation in the value of our currency. This depreciation has been at the expense of the people and not at the expense of the banks. It follows that any profit on gold reserves arising out of monetary policy should accrue to the State, representing the people as a whole.

4. The functions for which the banks were formerly responsible of issuing part of the note currency of the country and of maintaining part of our national gold reserves are in future to be assumed by the State through the medium of the quasi-public institution, the Bank of Canada. In order not to affect unduly the profits of the banks, the transfer of their note issuing powers to the central bank is to be spread over a period of time but the centralization of the country's gold reserves is to be accomplished immediately. Such centralization is a *sine qua non* of the effective working of a central bank. If it is true that a no-man's-land of responsibility has existed in the past in the handling of our national gold reserves, that uncertainty must forever be ended. The responsibility must be placed squarely upon the shoulders of a single institution and that institution must have the prerogatives that go with that responsibility.

5. The treatment which it is proposed to accord to the banks is the same as that which has been meted out to the individual. If an individual Canadian has gold coin to-day and takes it to the Mint or to a bank, he will receive for it in Canadian currency not its market value as gold but the statutory mint par, its face value. In the past, if the individual held a Dominion note, he had the right to redeem it in gold on demand. If he held a bank note, he had the right to redeem it in gold or Dominion notes and if the bank tendered him Dominion notes these could promptly be converted into gold. In either case, had his rights not been interfered with, he would have had the opportunity of securing the profit on gold now represented by the premium on gold in terms of Canadian currency. But his rights have been interfered with. For good and sufficient reason the sovereign power of the State has stepped in and made it impossible for him to secure that profit. What it has done in the case of the individual, it can scarcely fail to do in the case of the banks."

The CHAIRMAN: Mr. Logan asked permission to be heard, perhaps not in rebuttal, but to make a supplementary statement summarizing the banks' position.

Mr. MCGIBBON: Did I understand Mr. Clark properly when he said that if a private individual should wish to dispose of gold he could get only $20.67?

Mr. CLARK: Gold coin?

Mr. MCGIBBON: Or gold nuggets, anything of that kind?

Mr. CLARK: Just gold coin.

Mr. GEARY: Mr. Chairman, may I ask if Mr. Logan is going to make a statement now in reply?

The CHAIRMAN: No, this is just a summary.

Mr. LOGAN: This is just a summary of some of the points that came up on Thursday; they were not perfectly clear, and I would just like to clear them up now.

The CHAIRMAN: All right, Mr. Logan.

Mr. S. H. LOGAN, recalled.

The WITNESS: First of all, Mr. Chairman, I would like to congratulate Dr. Clark on his very excellent summary of the whole situation. I wish to present at this time some points that came up for discussion the other day.

REPLY TO CRITICISMS OF THE BANKS' STATEMENT ON GOLD

1. At least three persons made the following point: That if it had not been for legislation precluding the export of gold the banks would have lost their gold.

This, and somewhat similar statements, are based upon a complete misapprehension of the law and of the facts applicable thereto. Neither before the war nor at any time since has the holder of a bank note or any depositor had the right to demand payment in gold of the bank's obligation on its notes or its indebtedness to its depositors. The prohibition of export of gold therefore, had no application whatever to the holding of gold by the banks. Under a licence system the banks did export gold when their necessity required it.

2. Another statement is that the banks refused to redeem their notes in gold when this country went off the gold standard.

There never was any legal right to demand gold in redemption of the bank's notes. These statements of alleged fact and the contentions based thereon are, therefore, wholly unfounded and misleading.

3. The argument of the Hon. Mr. Coates, Prime Minister of New Zealand, and the citation by him of what was said by an alleged prominent banker in England (no name being given) in respect of New Zealand's proposed action, is completely met by the fact that the most prominent financial journal in London, The Economist, condemned the course proposed to be taken by New Zealand in respect of the gold held by the commercial banks in excess of that part of their gold holdings required by statute to be held against their note issues, and stated that the full market price should be paid for such gold. The interested Premier defending himself against criticism is surely not an impartial authority compared with the editorial statement of the leading financial journal in the Empire.

4. The statement that many other countries adopted the course proposed to be followed by Canada in taking over the gold from the commercial banks at nominal par and not at market value was evidently based upon the argument by the Hon. Mr. Coates, who stated that similar action to that proposed by his government had been taken by certain other countries. While it is probably true that in the cases named by him these governments took the profits upon the gold held by their central banks, it is not stated that such governments took the profit in like manner on gold acquired from the commercial banks.

Such was certainly not the case in France in 1928, when the commercial banks, upon transferring their gold holdings to the Bank of France, received the full premium of about 400 per cent.

Similarly in Belgium, the commercial banks in 1926 received the full premium of about 500 per cent upon the transfer of their gold to the National Bank of Belgium.

In Italy in 1926, the banks of Naples and Sicily surrendered their note-issue and privileges to the Bank of Italy and transferred to it their statutory reserves of gold and foreign exchange, being paid in full the ruling gold premium of about 400 per cent.

The fact that the three leading countries named, upon investigation, are found to have done the exact opposite of what Mr. Coates said and implied that they did, should dispose of the whole fabric of argument based upon the New Zealand case and upon Mr. Coates allegations.

Mr. SPENCER: Mr. Chairman, I would like to ask Mr. Logan a question or two.

The CHAIRMAN: Do you want to examine Mr. Logan on that? I thought it would be more orderly if anybody wanted to ask Mr. Clark questions now. Does anybody desire to ask Mr. Clark any question? We ought to deal with this question this morning.

[Mr. S. H. Logan]

Mr. SPENCER: Mr. Chairman, Mr. Logan just told the committee that the banks did not have to redeem their notes in gold. That is true, but they had to redeem their notes in Dominion notes, and I understand Dominion notes were payable in gold. Furthermore, the banks could never get Dominion notes by buying gold except through the use of the Finance Act and, therefore, I think it is possibly a little misleading to say that the public could not get gold for bank notes because they had a right to ask for it indirectly through Dominion notes.

The CHAIRMAN: That is obvious up to a certain point.

Mr. RAYMOND: Mr. Chairman, I agree entirely with remarks made the other day by Mr. White in connection with the question of gold. Mr. Clark has cited precedents in other countries, but I must say that it does not appeal to me in a matter like this, when the act has caused an injustice; and I think it is an injustice, for the parliament to grant the powers enacted in this section. In this case I presume the banks have exercised only the powers which were granted to them by parliament, and having exercised these powers which were granted to them, the government come along and say: We have the power to do this, and we are going to confiscate part of the money that you now possess. I do not think that is right, and I think parliament should not give the example of confiscating private property. If they want to expropriate the gold, they should pay the market value for it. That is my opinion.

The CHAIRMAN: What about the case of the Canadian $5 gold coin, is that expropriation? It is all right against the government but it is not all right against the bank, that is your argument.

Mr. GEARY: I do not think that is quite Mr. Raymond's point. If there is expropriation there is provision for finding market values, but with all respect I do not agree with Mr. Raymond's point.

By Mr. Geary:

Q. Suppose I were to find, Dr. Clark, on a watch-chain a $10 gold coin, what money can I get for it?—A. A $10 gold coin will bring only its face value.

Q. In Dominion notes?—A. In Dominion notes.

By Mr. Fraser (Cariboo):

Q. Do you mean to say, Dr. Clark, that a gold coin in general circulation has not been redeemed by the banks?—A. I cannot say what the banks have done, but I would be greatly surprised if they had paid a premuim on gold coin.

Q. I can tell you from personal experience that I have received from the bank the current premium on gold when it was turned into the bank.

The CHAIRMAN: For gold coin?

Mr. FRASER (*Cariboo*): Yes, for gold coin.

The WITNESS: A Canadian gold coin?

Mr. FRASER (*Cariboo*): A $20 gold coin, during the last year.

The WITNESS: The only thing I cannot understand about that is this, that the banks are not in a position to get any premium on that gold coin as long as it is illegal to melt down the gold coin and as long as it is illegal to export it without licence, so that I do not see why any individual should pay a premium on gold coin if he cannot legally get a premium for it himself.

By Mr. Baker:

Q. Should it occur and the final question was settled that the banks turn in their gold at $20.67, would it be entered in the assets of the Central Bank at $20.67 or at what price?—A. The Bank of Canada makes no profit out of the transfer of gold at all. Any profit that does result goes to the government, to the Consolidated Revenue Fund, and the gold will be carried in the books of the Central Bank at any time at the statutory Mint price in effect at that time.

[Mr. W. C. Clark]

Q. It will be entered as an asset at $20.67?—A. Now it would, yes. If our Currency Act is changed the situation would change, but it would be entered at the Mint value in effect as the result of the Currency Act at the time.

The CHAIRMAN: I do not understand how a bank could pay Mr. Fraser more than $20.60 for gold coin unless the bank melted the coin and sold it as bullion, and that would be a violation of the Currency Act.

By Mr. Hackett:

Q. Dr. Clark, did you say that the current gold and subsidiary coin held by the banks was only about $30.000,000 in Canada?—A. I said that of the item Gold and Subsidiary Coin held in Canada—probably $31,000,000 or $32,000,000 —would represent gold. I would estimate that perhaps $5,000,000 or $6,000,000 of that total of $36,000,000 or $37,000,000 is subsidiary coin, you see, and I was referring only to the amount of gold in that particular item. I would say probably the banks hold to-day $31,000,000 or $32,000,000 in gold there and another $5,000,000 of gold in the central gold reserve.

Mr. WHITE (*London*): The practice described by Mr. Fraser could not have been changed because I have presented coin and got money at its face value.

Mr. COOTE: It seems to me there is only one fair alternative to the proposal in regard to the government taking over this gold and that is to amend the Bank Act so that bank notes are redeemable in gold.

Mr. DUFF: I am not quite clear as to whether we are discussing clause 27 or 28 or 29. It seems to me that the discussion so far has been centred around clause 28.

The CHAIRMAN: We are really discussing all three together. When we come to vote we will have to do it by individual clauses. The bankers want to discuss the whole question together.

Mr. McGIBBON: Is it not a fact that this appreciation in gold is a counter-balancing item in the loss by the people?

The CHAIRMAN: That is one of the arguments made.

Mr. STANLEY: Mr. Chairman, what is the specific purpose of the statutory Mint price of $20.67? What was the move behind the legislation, also what was considered to be the bank's relation to the legislation and the purpose of the legislation.

The WITNESS: Well, the purpose of the statutory Mint price for gold, of course, is to determine the parity at which to go on the gold standard. Any country on a gold standard is using the commodity gold as the yard-stick or foot-rule by which to measure commodity values in the country. By law, the government lays down a price in terms of its domestic currency for an ounce or a given physical quantity of gold. In Canada one dollar represents 23·22 grains of fine gold; or put it the opposite way, gold is worth $20.67 per fine ounce. That establishes the relationship between the currency value in Canada and gold. Gold is a commodity that is used or has been used by a great many countries of the world. It gets its value only in small part because of its commodity use and in large part because of its monetary use by the countries of the world.

Mr. STANLEY: And the actual relationship of gold is in respect to its monetary value?

The WITNESS: Quite so. They are operating within the framework laid down by the parliament of Canada.

[Mr. W. C. Clark]

By Mr. McGibbon:

Q. Was not that an international agreement about one hundred years ago?—A. No, not an international agreement. The various countries adopted the gold standard at various times. In Canada I think our Act goes back to 1858.

Q. Great Britain led the way?—A. Yes, Great Britain led the way at the early part of last century.

By Mr. Duff:

Q. Supposing last year when President Roosevelt set the price of gold at a certain price, instead of doing that, if the price had been set at $15 instead of $35, what is your opinion would have happened in regard to clauses 27 and 28 with regard to the price of gold which the Central Bank can take over from the banks?

The CHAIRMAN: After all, is not that purely hypothetical?

Mr. DUFF: It may be hypothetical but we are dealing with a hypothetical question.

The CHAIRMAN: Let me put this question to you, Mr. Duff: Supposing we repudiate section 26 and elect to pay this premium; it is an accomplished fact, a premium has been paid to the bank, and Mr. Roosevelt withdraws his support and gold goes back to $20.67; who is going to be the goat?

Mr. DUFF: Suppose it goes to $15 what then, who is the goat then?

By Hon. Mr. Chaplin:

Q. I would like Mr. Clark to explain how it comes that the Central Bank expects to pay for the silver at the market price and does not pay for the gold at the market price?—A. Well, the answer to that is that silver is not the monetary standard of the country. Silver is just a commodity on the market; moreover, its market value is very much lower relative to all other commodities than is gold.

Q. Do I understand that you claim that gold has recently been the monetary standard here?—A. Gold has been the monetary standard up until, say, the end of 1931, and it was that gold standard under which the banks acquired the gold which they now hold. The difference between gold and silver is that gold has been the monetary standard and silver has not, and the whole argument here is based on the fact that gold in monetary reserve is a special thing, nothing like an ordinary commodity at all.

By Mr. White (Mount Royal):

Q. What injurious or harmful effect would follow if the banks are permitted to retain their gold?—A. Well, in the first place, I think it would be a very definite unfairness to every other individual in this country. It would be treating the banks in a preferred way as compared with you and me and every other individual in the country. I do not think there should be that discrimination. And then, in the second place, the government representing the people of the country would lose a revenue to which, I think, they have a real right.

Q. That is to say, that this legislation is proposed in order that the people of Canada through the government can get a 70 per cent premium on the gold held by the banks?—A. Yes.

Q. In other words, rob Peter to pay Paul?—A. No, but correcting in part a situation that has already occurred. The depreciation that has followed our departure from the gold standard has already resulted in a loss to the Canadian public. This taking over the gold merely offsets that loss in part

[Mr. W. C. Clark]

By Mr. Irvine:

Q. Dr. Clark, following out the question of Mr. White, if the banks were permitted to retain the gold would it not hamper or perhaps make impossible the functioning of the Central Bank?—A. Yes. I tried to make clear in the memorandum that the centralization of the gold reserve of the country is a sine qua non of the effective working of the Central Bank.

By Mr. Hackett:

Q. Dr. Clark, the Central Bank is supposed to be a national institution brought into existence for the general welfare of all the people. If that be true, what justification is there in taking this large amount of money—somewhere in the vicinity of $40,000,000—from 48,000 people in Canada? There are 48,000 shareholders; they are not all resident in Canada and, after all, this is their property and it is being taken from them for the benefit of the other ten million.

The CHAIRMAN: No, no.

Mr. HACKETT: Why not, to whom does the gold belong?

Mr. GEARY: Your assumption is wrong; it is not being taken from them. Your argument is based on a false premise.

Mr. HACKETT: No, my argument is not based on a false premise. That gold to-day belongs to the banks and the shareholders, and you are taking it away for less than the market value. The position is, that a man who has a thousand dollars in bank shares is just so much worse off than the man who has a thousand dollars in something else. I would like Dr. Clark to answer the question.

The WITNESS: Well, I think it is the same point over again, is it not Mr. Hackett? If my point is correct, that the gold held by the banks is held by them merely as an incident to the carrying out of a franchise that they are given the right to exercise, and was not bought by them as an ordinary asset for the sake of speculative profit, then I think the shareholders of the banks have no right to anticipate any profit; you are not taking from them anything that they had a right to expect. Then the function which was formerly performed by the banks for which they hold this gold, the responsibility for carrying out that function is being turned over to the Central Bank; it must do it in future.

By Mr. Raymond:

Q. What amount shall be paid by the Central Bank to the individual who is the owner of gold?—A. Gold coin?

Q. Yes?—A. The individual owning gold coin in this country will get only $20.67—the face value of the coin—from the Mint, or the government, the A.R.G. office, or from the bank itself, unless and until the government of this country changes the parity.

Q. But an individual may have paid a premium himself and now he will be the loser, if you are going to expropriate his property; he is going to lose?

The CHAIRMAN: No, no, he never paid a premium on gold coin.

Mr. HACKETT: Not since 1931.

By Mr. White (Mount Royal):

Q. Dr. Clark, if the government of Canada should be required to pay the banks for their gold the current market value, a premium of about 70 per cent, a very considerable amount of money would undoubtedly be involved. Why then if that be an objectionable course, why not permit the banks to retain their store of gold? Gold has not and never has been a circulating medium in Canada; it has never constituted any part of our currency. You speak of the

[Mr. W. C. Clark]

cash reserves that the chartered banks carry against their liabilities whether on their own liability or their deposit liability. The gold is a small portion of reserve against domestic liability. The banks hold as their cash reserves three and one half to four dollars in legals against one dollar in gold. Those legals constitute the main, almost the whole force of the banks cash reserves. The gold in the bank is necessary against the foreign liability of the bank. More than that the gold in the banks is essential to the banks' operations in foreign exchange. As I see it, one of the principal purposes of this Bank of Canada legislation is to crib, cabin, and confine the operations of the chartered banks in respect of foreign exchange, to limit them to such exchange as may arise out of the operations of foreign trade, to give a monopoly, in fact, to the Bank of Canada in foreign exchange operations. That I consider unfair to the chartered banks, and I think the chartered banks can set up an unanswerable argument that their gold reserve, which is not, after all, a very large one compared with their legal tender reserve,—the banks can set up an unanswerable argument in favour of the retention of their gold holdings against their foreign liabilities. I can see a difficulty and an objection to the government taking over the gold held by the banks at the very substantial premium of 70 per cent, but I can see no objection whatsoever to the banks being allowed to retain what gold they have.—A. I think the answer to that question is that the effective working of a Central Bank in control of your credit system involves a centralization of your gold reserves, under a single responsibility. I think the bankers' brief itself demonstrates very clearly, that under the Finance Act, as it has been working in recent years, there has been apparently a confusion of the responsibility. Presumably the Department has gone on the assumption that they had not the sole responsibility for maintaining and directing the gold reserves of this country. The bankers now say that all the gold they have is against foreign liabilities. Presumably that means that they have had no responsibility for maintaining the gold reserve of this country. If that conclusion exists I think it clearly indicates the necessity of getting rid of it once and for all, and the experience of all other countries shows that the centralization of gold reserves is essential to the efficient and smooth working of a Central Bank and a financial system. I would say in answer to your second point, Mr. White, that if the case of the banks is unanswerable, if they can present an unanswerable case to the Governor in Council that all the gold is held against foreign liabilities, they certainly would have every right to expect a reasonable deal from the Governor in Council.

Q. That may involve some change in the phraseology of the section, may it not.

The CHAIRMAN: Gentlemen, we have had a very full discussion on this point. May we now put the question?

Hon. Mr. EULER: I think I heard Dr. Clark say that the efficient working of a Central Bank requires centralization of all the gold in that Central Bank. Is that the case in other countries, for instance in England?

The WITNESS: Yes. All of the reserves of the joint stock banks of England are two things, one, about 6 per cent of Bank of England notes, that is, the Central Bank notes, and about $4\frac{1}{2}$ per cent of balances with the Bank of England, a total cash reserve of about ten and a half per cent.

Q. Have the chartered banks any gold at all?—A. No. The gold is all held by the Bank of England and there is a very clear understanding between the Bank of England and the government of England, that when England finally goes back to the gold standard the profit on the one hundred and ninety odd million pounds of gold which the Bank of England now holds will accrue to the government.

[Mr. W. C. Clark]

By Mr. White (Mount Royal):

Q. Can the chartered banks in England withdraw gold or obtain gold from the Bank of England?—A. There is a free gold market in England. They could obtain gold for export, for instance, but they do not hold gold in their reserves.

Q. But they can withdraw bills in the Bank of England in gold?

The CHAIRMAN: I would not think so.

The WITNESS: They could for export purposes. There is a free gold market in England.

By Mr. Duff:

Q. Did not the Bank of England pay the chartered banks the current market rates at the time they borrowed the gold from them?—A. Presumably they did, yes.

By Mr. Geary:

Q. Is there any way in which a $10 gold piece can be made to realize more? —A. The only way that I know is to sell it to somebody who is willing to break the laws of the country.

Q. That is all I mean, legally?

The CHAIRMAN: Gentlemen, the question is on Section 27, (1), shall the subsection carry?

Carried.

(Consideration resumed of Bill 19.)

APPENDICES

A to AM

82684—61

APPENDIX "A"

EXHIBIT 10

OBLIGATIONS OF THE CANADIAN PACIFIC RAILWAY COMPANY TO THE BANK OF MONTREAL

Date	Obligations	Security	Market value of* collateral	Cash at credit of company in various accounts	Total cash and security	Surplus of protection
	$		$	$	$	$
1931						
Mar. 27	5,000,000	$5,000,000 Lucerne-in-Quebec Community Association Ltd. 15-year 5% Bonds (guaranteed by Canadian Pacific Railway Co.)	Not estimated	19,014,000	19,014,000	14,014,000
June 22	20,000,000	" "	Not estimated	29,069,000	29,069,000	9,069,000
1932						
June 22	20,000,000	$5,000,000 Lucerne-in-Quebec Community Association Ltd. 15-year 5% Bonds (guaranteed by Canadian Pacific Railway Co.) and $20,000,000 Canadian Pacific Railway 4% Consolidated Debenture Stock (issued in United States currency)	10,800,000	12,491,000	23,291,000	3,291,000
July 22	20,000,000	" "	15,000,000	6,078,000	21,078,000	1,078,000
Aug. 22	20,000,000	" "	14,000,000	6,003,000	20,003,000	3,000
Sept. 22	20,000,000	" "	14,200,000	10,334,000	24,534,000	4,534,000
Oct. 22	20,000,000	" "	14,000,000	14,100,000	28,100,000	8,100,000
Nov. 22	20,000,000	" "	13,000,000	15,617,000	28,617,000	8,617,000
Dec. 22	20,000,000	" "	13,000,000	14,336,000	27,336,000	7,336,000
1933						
Jan. 23	20,000,000	" "	13,200,000	10,953,000	24,153,000	4,153,000
Feb. 22	20,000,000	" "	11,000,000	9,807,000	20,807,000	807,000
Mar. 27	20,000,000	$5,000,000 Lucerne-in-Quebec Community Association Ltd. 15-year 5% Bonds (guaranteed by Canadian Pacific Railway Co.); 100,000 shares Consolidated Mining & Smelting Co. of Canada Limited; $20,000,000 Canadian Pacific Railway Company 4% Consolidated Debenture Stock	17,062,000	10,354,000	27,416,000	7,416,000
April 27	20,000,000	" "	20,600,000	10,170,000	30,770,000	10,770,000
May 27	20,000,000	" "	24,400,000	9,715,000	34,115,000	14,115,000

June 22	18,093,000	$5,000,000 Lucerne-in-Quebec Community Association Ltd. 15-year 5% Bonds (guaranteed by Canadian Pacific Railway Co.); 100,000 shares Consolidated Mining & Smelting Co. of Canada Limited; $21,822,000 Canadian Pacific Railway 4% Consolidated Debenture stock; Undertaking with regard to a guarantee by Dominion Government for $13,093,000	27,120,000	6,251,000	33,371,000	15,278,000
Dec. 1	22,444,000	$37,406,000 Canadian Pacific Railway 4% Consolidated Debenture Stock	20,947,360	22,945,000	43,892,360	21,448,360
		Order in Council dated 29th November, 1933, authorizing the Minister of Finance to execute agreements with the various lending Banks guaranteeing repayment at maturity by the Dominion Government.				
Dec. 13	....	Agreement dated 29th November 1933, executed by Hon. Edgar N. Rhodes, K.C., Minister of Finance, and the Bank of Montreal, guaranteeing repayment at matuirty by the Dominion Government.				

*No valuation made of Lucerne-in-Quebec bonds.

APPENDIX "B"

Exhibit 11

SCHEDULE

Column 1 Name of Bank	Column 2 Percentage underwritten	Column 3 Amount of Total Loan	Column 4 Amount of First Instalment June 22, 1933	Column 5 Amount of First Deposit Cons. Deb. Stock June 22, 1933	Column 6 Amount of Second Instalment Dec. 1, 1933	Column 7 Amount of Second Deposit Cons. Deb. Stock Dec. 1, 1933	Column 8 Total Deposit Cons. Deb. Stock
		$	$	$	$	$	$
Canadian Bank of Commerce..	17·54	10,524,000	6,139,000	10,230,000	4,385,000	7,310,000	17,540,000
The Dominion Bank..........	4·68	2,808,000	1,638,000	2,730,000	1,170,000	1,950,000	4,680,000
Banque Canadienne Nationale	2·50	1,500,000	875,000	1,460,000	625,000	1,040,000	2,500,000
The Bank of Toronto...........	4·39	2,632,000	1,536,000	2,560,000	1,096,000	1,827,000	4,387,000
The Bank of Nova Scotia...	8·63	5,180,000	3,020,000	5,034,000	2,160,000	3,599,000	8,633,000
Imperial Bank of Canada........	4·39	2,632,000	1,536,000	2,560,000	1,096,000	1,827,000	4,387,000
The Royal Bank of Canada.....	20·47	12,280,000	7,163,000	11,938,000	5,117,000	8,529,000	20,467,000
Bank of Montreal	37·40	22,444,000	13,093,000	21,822,000	9,351,000	15,584,000	37,406,000
	100·00	60,000,000	35,000,000	58,334,000	25,000,000	41,666,000	100,000,000

APPENDIX "C"

Exhibit 12

150E (10)

Head Office Bank of Montreal, Montreal

(Enclosure)

Seventeenth August, 1933.

Dear Sir,—With reference to the Prime Minister's letter of 31st May, 1933, to Sir Charles Gordon in connection with a loan of $60,000,000 to be made by certain Canadian Banks to the Canadian Pacific Railway Company in which it was stated that as soon as arrangements between the Company and the Banks had been completed the requisite Order in Council would be passed guaranteeing payment of the said loan of $60,000,000 with interest at 5 per cent per annum, payable semi-annually, I have to advise you that such arrangements have been completed.

The Banks up to date have advanced to the Canadian Pacific Railway Company $35,000,000 against pledge of $58,334,000, Consolidated Debenture Stock of the Company and early in December will advance an additional $25,000,000 against a further pledge of $41,666,000 of the said Consolidated Debenture Stock, making total advances of $60,000,000 against the pledge of $100,000,000 of the Debenture Stock as set out in the enclosed schedule and in accordance with the stipulations in the Prime Minister's letter aforementioned.

I shall be obliged if you will, at your convenience, send me a draft of the proposed Order in Council which we would like to submit to the Company before it is actually passed.

I am, yours very truly,

W. A. BOG.

APPENDIX "D"

Exhibit 13

150 E (9)

Office of the Prime Minister of Canada

Ottawa, 31st August, 1933.

Dear Mr. Bog,—I beg to acknowledge receipt of your letter of the 17th instant, which came along some days ago.

A draft of the proposed Order in Council regarding a loan to the Canadian Pacific Railway Company has been prepared and, as you requested, I am inclosing herewith a copy of the same. I note that you would like to submit this to the Company and I hope that you will have consideration given to it as soon as possible and then write to the Prime Minister himself.

You will see from the form of the Order in Council that our idea is that there should go with it an agreement covering all the details and conditions as understood between the Banks, the Railway Company, and the Government. When you are returning the enclosed, with such comments as you care to make, I think it would be helpful if you will, at the same time, advise the Prime Minister as to any views that the Banks may have regarding the form that the agreement should take.

Yours sincerely,

GEO. H. PERLEY.

W. A. Bog, Esq.,
General Manager,
Bank of Montreal,
Montreal, P.Q.

APPENDIX "E"

Exhibit 14

150E-5

Head Office Bank of Montreal, Montreal

Twenty-eighth November, 1933.

Dear Mr. Bennett,—With reference to our telephone conversation of to-day, the Canadian Pacific Railway Company have advised us that, out of the $35,000,000 advance made by the Banks on the 22nd June last, obligations amounting to $34,033,111 have been paid and that $994,500 has been reserved to meet rolling stock purchases due on the 30th of this month, making a total of $35,027,611. A list of these obligations is enclosed.

As and when further obligations are retired we shall advise you.

Yours very truly,

JACKSON DODDS,
General Manager.

The Right Hon. R. B. Bennett, P.C., K.C.,
Prime Minister of Canada,
Ottawa, Ont.

APPENDIX "F"

Exhibit 15

150-D (1)

COPY

List as mentioned in letter of 28th November, 1933 from Jackson Dodds, Esq., General Manager of the Bank of Montreal, to the Right Honourable R. B. Bennett, P.C., K.C., Prime Minister of Canada.

PAYMENTS MADE IN DISCHARGE OF MATURING OBLIGATIONS SINCE MAY 31st, 1933

—	—	Currency	Plus Exchange	Total in Canadian Currency
		$	$	$
May 31st	Instalments Rolling Stock Purchases	U.S. 975,000	136,500	1,111,500
June 1st	Northern Alberta Railways Company Purchase	Can. 2,500,000	....	2,500,000
June 22nd	Bank of Montreal Loan	U.S. 7,500,000	328,125	7,828,125
June 22nd	Bank of Montreal Loan	Can. 7,500,000	....	7,500,000
June 30th	Instalment Rolling Stock Purchases	U.S. 2,000,000	151,000	2,151,000
July 1st	Northwestern National Bank of Minneapolis Loan	U.S. 500,000	38,125	538,125
July 15th	Chase National Bank Loan	U.S. 10,000,000	511,143	10,511,143
Aug. 29th	First National Bank, Chicago Loan	U.S. 1,000,000	60,312	1,060,312
Nov. 1st	First National Bank, Saint Paul Loan	U.S. 400,000	16,453	416,453
Nov. 1st	First National Bank, Minneapolis Loan	U.S. 400,000	16,453	416,453
		32,775,000	1,258,111	34,033,111
Reserved to meet Instalments Rolling Stock Purchases Nov. 30th		U.S. 975,000	19,500	994,500
Total ($23,750,000 U.S. 10,000,000 Can.		33,750,000	1,277,611	35,027,611

APPENDIX "G"

Exhibit 16

150-E-1

Head Office Bank of Montreal, Montreal

Fifth December, 1933.

Dear Mr. Bennett,—With reference to our letter of the 28th November regarding the obligations of the Canadian Pacific Railway Company which are to be repaid from the proceeds of the loan to the Company by eight of the Canadian Banks, and our undertaking to advise you as and when each obligation is retired, we received the following letter to-day from Mr. E. E. Lloyd, Vice-President and Treasurer of the Company:—

> I have your letter of December 2nd, and this will confirm to you the fact that the obligations covering Rolling Stock Purchases, which were due on November 30th, amounting to $975,000, have been paid.

They have also retired on the 1st December the loan from the Bank of Montreal of $5,000,000.

I am, yours very truly,

JACKSON DODDS,
General Manager.

The Right Hon. R. B. Bennett, P.C., K.C.,
Prime Minister of Canada,
Ottawa, Canada.

APPENDIX "H"

BANK OF MONTREAL

March 1st, 1934

Names of Directors of the Bank of Montreal—Address and Occupation of each.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*
Sir Charles Gordon, G.B.E., Bank of Montreal, Head Office, Montreal, Que. President, Bank of Montreal.	Chairman of the Board and President— Dominion Textile Company Limited. Chairman of the Board— Penman's Limited. Chairman of the Canadian Board— Royal Exchange Assurance. President— Bank of Montreal. Dominion Glass Company Limited. Montreal Cottons Limited. The Royal Trust Company. Ritz Carlton Hotel Company Limited. Hillcrest Colleries Limited. Vice-President— Guarantee Company of North America. Director— Borden's Limited. Montreal Light, Heat and Power Consolidated. Paton Manufacturing Company, Ltd. St. Lawrence Corporation Ltd. Drummondville Cotton Co. Ltd. Sherbrooke Cotton Company Ltd. Canadian Pacific Express Company. Canadian Airways Limited. Dominion Steel & Coal Corporation Limited. American Locomotive Company . Dominion Rubber Company Limited. Brinton-Peterboro Carpet Co. Ltd. Standard Life Assurance Company. Ogilvie Flour Mills Company Limited. United States Rubber Company. Montreal Locomotive Works Limited. Tuckett Tobacco Company Limited. Canadian Pacific Railway Company. (Member Executive Committee) Canadian Industries Limited. Canadian Bronze Company Limited.
H. R. Drummond, Room 805, Drummond Bldg., Montreal.	Vice-President— Bank of Montreal. The Royal Trust Company. Director— Canada & Dominion Sugar Co. Ltd. The Canadian Bag Company Ltd. Simmons Limited.

Names of Directors of the Bank of Montreal—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.—Con.*
Major-General The Hon. S. C. Mewburn C.M.G., Pigott Bldg., Hamilton, Ont. Barrister, of Messrs. Mewburn, Marshall & Jefferess.	Vice-President— Bank of Montreal. The Huron & Erie Mortgage Corporation. 2nd Vice-President— Mutual Life Assurance Company. Director— Royal Trust Company. Bell Telephone Co. of Canada. Canada Northern Power Company. Hamilton Bridge Company Ltd. Tuckett Tobacco Company. Canadian Dredge & Dock Co. Ltd. John Labatt, Limited. Economic Investment Trust Ltd. Steel Company of Canada Ltd. Borden's Limited. Dominion Glass Company Ltd. Member of Partnership— Mewburn, Marshall & Jefferess.
D. Forbes Angus, Room 403, Canadian Pacific Express Building, 215 St. James St. West, Montreal.	Chairman Board of Directors in Canada— The Standard Life Assurance Co. President— Guardian Insurance Co. of Canada. Director— Bank of Montreal. British Columbia Sugar Refining Company Ltd. The Canadian Bag Co. Ltd. Intercolonial Coal Mining Co., Ltd. Rosamond Woollen Co. The Royal Trust Company. Trustee— Guardian Assurance Company.
Lt.-Col. Herbert Molson, C.M.G., M.C., 1670 Notre Dame St. East, Montreal. President, Molson's Brewery Ltd.	President— Molson's Brewery Ltd. Standard Clay Products Ltd. Vice-President— Canadian Foreign Investment Corporation Ltd. Director— Bank of Montreal. Dominion Rubber Co. Ltd. Canadian Industries Ltd. The Royal Trust Company. Dominion Oilcloth & Linoleum Company Ltd. Canadian Arena Co. Ltd. Liverpool London & Globe Assurance Co. (Canadian Director). Montreal City & District Savings Bank. Shawinigan Water & Power Co. Bell Telephone Co. of Canada. St. Lawrence Corporation Ltd. Canada Creosoting Co.
Harold Kennedy, 1700 McGregor Street, Montreal. Retired.	Director— Bank of Montreal. Johnson's Asbestos Company. Canadian Foreign Investments Corporation Ltd.

Names of Directors of the Bank of Montreal—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member. Con.*
The Honourable Henry Cockshutt, 152 Dufferin Avenue, Brantford, Ont. President & Chairman— Cockshutt Plow Company Limited, Brantford.	President & Chairman— Cockshutt Plow Co. Ltd. Gypsum Lime & Alabastine (Canada) Limited. President— Frost & Wood Co. Ltd. Chairman & Director— National Sewer Pipe Company. Director— Canadian Pacific Railway Company. Lake Erie & Northern Railway. Bell Telephone Co. of Canada. The Royal Trust Company. Bank of Montreal. Canadian International Investment Trust. Dominion Power & Transmission Co. International Nickel Co. of Canada. Member Canadian Advisory Board— Sun Insurance Office Limited.
E. W. Beatty, Esq., K.C., Windsor Street Station, Canadian Pacific Railway Co., Montreal, Que. Chairman & President, Canadian Pacific Railway Company.	Chairman & President— Canadian Pacific Railway Company. Chairman— Canadian Pacific Steamships Ltd. Vice-President— Canadian Airways Limited. Director— Canadian Pacific Railway Company and Subsidiaries. Bank of Montreal. The Royal Trust Company. Royal Exchange Assurance Company. Waldorf-Astoria Hotel Corporation. Sun Life Assurance Company of Canada.
Frederick Edmund Meredith, K.C., LL.D., D.C.L., 601—614 St. James Street, Montreal, Quebec. Barrister, of Messrs. Meredith, Holden, Heward & Holden.	Director— Canadian Pacific Steamships Ltd. National Steel Car Corporation Ltd. The Royal Trust Company. Bank of Montreal. Montreal London & General Investors Limited. Standard Life Assurance Company (Canadian Board of Directors). Globe Indemnity Co. of Canada. Liverpool Manitoba Assurance Co. National Liverpool Insurance Co. Member of Partnership— Meredith, Holden, Heward & Holden.

Names of Directors of the Bank of Montreal—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
The Hon. Thomas Ahearn, P.C., "Buena Vista", Laurier Avenue West, Ottawa, Ont. President, Ottawa Light, Heat & Power Company, Limited.	President— Ottawa Investment Company Ltd. Ottawa Land Association. Ottawa Car Manufacturing Company Ltd. Ottawa Gas Company. Ottawa Electric Company. Ottawa Light, Heat & Power Co. Ltd. Ottawa Electric Railway Company. Ottawa Traction Company Limited. Capital Mica Company Limited. Ahearn & Soper Limited. Ottawa Building Company Limited. Gas Accumulator Co. (Canada) Ltd. Vice-President — Wallace Realty Company Limited. Director— Canadian Westinghouse Company. Bell Telephone Co. of Canada. (Member Executive Committee). The Northern Electric Company. Guarantee Company of North America The Royal Trust Company. Bank of Montreal.
John Wilson McConnell, 804 Canadian Pacific Express Bldg., Montreal. President, St. Lawrence Sugar Refineries, Limited.	President— St. Lawrence Sugar Refineries, Limited. Director— Bank of Montreal. Brazilian Traction Light & Power Co. Ltd. Montreal Light, Heat & Power Consolidated. Ogilvie Flour Mills Co. Ltd. Sun Life Assurance Co. of Canada. Holt Renfrew & Co., Ltd. Dominion Rubber Co., Ltd. Canada Steamship Lines, Ltd. The Borden Co., New York. International Nickel Co. of Canada Limited. Dominion Bridge Co., Ltd. The Royal Trust Co. Canadian Liquid Air Co. Limited. Chairman of the Board— The Borden Co., Ltd., Canada.

Names of Directors of the Bank of Montreal—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
William Allan Black, Esq., The Ogilvie Flour Mills, Co., Limited, Youville Place, Montreal. President, Ogilvie Flour Mills, Company Limited.	President— Ogilvie Flour Mills Company Ltd. and Subsidiaries— Ogilvie Grain Company. Seaforth Milling Company. Tree Line Navigation Co. Glenora Securities Co. Dunkeld Securities Co. (Personal Corporation). Manitoba Cold Storage Co. St. Lawrence Investment & Trust Co. Chairman— Consolidated Bakeries of Canada Ltd. Vice-President— Canadian Foreign Investment Corporation Ltd. Director— Belding-Corticelli Limited. Canadian Cottons Limited. Canadian Pacific Railway Company. Consolidated Mining & Smelting Co. Dominion Textile Company Ltd. Bank of Montreal. Drummondville Cotton Co. Ltd. (Subsidiary Dominion Textile Co. Limited). The Royal Trust Company. George Fuller Co. of Canada Ltd. Wilsils Limited.
Arthur Osborne Dawson, LL.D., 760 Victoria Square, Montreal. President, Canadian Cottons Ltd.	President— Canadian Cottons, Limited. Cornwall & York Cotton Mills Co. Ltd. Belding-Corticelli Limited. Dominion Woollens & Worsteds Ltd. Director— Manufacturers Mutual Fire Insurance Co., Providence, R.I. Crown Trust Company. Anglin-Norcross Limited. Citadel Brick Limited, Quebec, P.Q. McFarren Limited, F.B., Toronto. Bank of Montreal.
William Norman Tilley, K.C., Star Building, 80 King St. West, Toronto 2, Ont. Barrister, of Messrs. Tilley, Thomson & Parmenter.	Director— Bank of Montreal. Canadian Pacific Railway Company. (Member Executive Committee). Canada Life Assurance Company. The Royal Trust Company. Minneapolis, St. Paul & Sault Ste. Marie Railway Company. Member of Partnership— Tilley, Thomson & Parmenter.
Sir Frederick Williams-Taylor, 105 Eaton Square, London, S.W. 1., Retired General Manager, Bank of Montreal.	Director— Bank of Montreal. The Liverpool & London & Globe Insurance Company (Montreal Board). The Royal Trust Company. Dominion Textile Co. Ltd. Montreal London & General Investors Limited. Liverpool Manitoba Assurance Co.

Names of Directors of the Bank of Montreal—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
The Hon. Patrick Burns, Michael Building, Corner 9th Ave. & 3rd St. W., Calgary, Alta. Chairman of Board, Burns & Co. Limited.	Chairman of the Board— Burns & Company Limited. President— Burns Foundation Limited. P. Burns Ranches Limited. P. Burns Holdings Limited. P. Burns Agencies Ltd. P. Burns Coal Mines Limited. Calgary & Southwestern Railway Co. Southwestern Construction Co. Ltd. Director— Calgary & Edmonton Corporation Ltd. Metals Limited. Bank of Montreal. Dominion Bridge Company Limited. Imperial Life Insurance Company.
Ross Huntington McMaster, 525 Dominion Street, Montreal. President, The Steel Co. of Canada Limited.	President— The Steel Company of Canada Ltd. Vice-President & Director— Dominion Glass Co. Ltd. Director— Canada Steamship Lines Limited. Bank of Montreal. Canadian Bronze Co., Ltd. Canadian Industries Ltd. Canadian Pacific Railway Company. Canadian Pratt & Whitney Aircraft Company Ltd. Consolidated Mining & Smelting Co. of Canada Ltd. Consolidated Paper Corporation. Dominion Bridge Company. Dominion Rubber Company Ltd. Northern Electric Company, Ltd. The Royal Trust Company. Sun Life Assurance Co. of Canada.
C. F. Sise, 1050 Beaver Hall Hill, Montreal. President, Bell Telephone Co. of Canada.	President— Bell Telephone Co. of Canada. North American Telegraph Co. Director— Consolidated Paper Corporation. London & Scottish Assurance Co. Maritime Telegraph and Telephone Co. Montreal, London & General Investors Limited. Montreal Telegraph Company. Mutual Life Assurance Co. of Canada. Northern Electric Co. Northern Assurance Co. The Royal Trust Company. Bank of Montreal.

THE BANK OF NOVA SCOTIA

Names of Directors of the Bank of Nova Scotia—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
Birks, W. M., Montreal, Que. President, Henry Birks & Sons, Limited.	President— Henry Birks & Sons Limited. Director— Birks, Ellis, Ryrie Ltd. National Trust Company Ltd. Sun Life Assurance Co. of Canada. Birks-Dingwall Limited, Winnipeg.
Blackburn, Russell, Ottawa, Ont. Retired Lumberman.	President— R. L. & R. Blackburn Limited. Vice-President— Blackburn Brothers Limited. Partner— Gales & Company. Member, Ottawa Advisory Board— Toronto General Trusts Corporation.
Bryson, Honourable George, Fort Coulonge, Que. Lumberman.	Partner— Fraser & Company. Director— Ottawa River Forest Protective Association Ltd. Coulonge & Crow River Improvement Co.
Ellsworth, A. L., Toronto, Ont. President, British American Oil Co. Ltd.	President— British American Oil Co. Ltd. British American Oil Refineries Ltd. British American Oil Producing Co., Wichita Falls, Texas. Toronto Pipe Line Company, Wichita Falls, Texas. Toronto Iron Works Limited. Service Stations Limited. Director— Noranda Mines Limited. Canadian Copper Refineries Ltd. Maple Leaf Gardens Ltd. Securities Holding Corporation Ltd. Chartered Trust and Executor Co.
Fraser, J. B., Ottawa, Ont. Lumber Merchant.	President— J. B. Fraser Limited. Director— Upper Ottawa Improvement Co. Ltd. Ottawa River Forest Protective Association Limited. Partner— Fraser & Company.
Fraser, J. Fred., Halifax, N.S., Merchant.	President— Island Cold Storage Co. Ltd. Director— Nova Scotia Savings, Loan and Building Society. Mutual Life Assurance Co. of Canada. Stanfields Limited. Acadia Trust Company. Partner— Davis & Fraser.

Names of Directors of the Bank of Nova Scotia—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
Gordon, Hon. George, North Bay, Ont. Lumberman.	President— George Gordon & Co. Ltd. Sturgeon River Improvement Co. Ltd. Upper Ottawa Timber Co. Ltd. Cache Bay Stores Ltd. Vice-President— A. B. Gordon & Co. Ltd. Petewawa Lumber Co. Ltd. Director— Cochrane Dunlop Hardware Ltd. Driving & Boom Co. Ltd. National Grocers Co. Ltd. Searchmont Lumber Co. Ltd. Sherritt Gordon Mines Ltd. Dominion Explorers Ltd. Temagami Timber Co. Ltd. Coulonge Timber Co. Ltd. Smoky River Timber Co. Ltd. Montreal River Timber Co. Ltd. Partner— Fraser & Company.
Maclaren, Alexander, Buckingham, Que. Lumberman.	President— The Yale Development Company. Vice-President— Maclaren Co. Ltd., The James. Maclaren Quebec Power Co., The. Maclaren Power & Paper Co. Director— Toronto General Trusts Corporation. River Lievre Navigation Co. Ltd., The. Fourth Canadian General Investment Trust Limited.
McCarthy, Leighton, K.C., Toronto, Ont. President, Canada Life Assurance Company.	President— Canada Life Assurance Company. Prudent Securities Limited. Muskoka Mill & Lumber Company. Vice-President— Toronto Savings & Loan Co. Ltd. Duke-Price Power Co. Ltd. Canadian National Carbon Co. Ltd. Prest-O-Lite Co. of Canada, Ltd. Dominion Oxygen Co. Ltd. Union Carbide Co. of Canada Ltd. Electro Metallurgical Co. of Canada Limited. Dominion Mines & Quarries Ltd. Electric Furnace Products Co. Ltd. Aluminium Limited. Aluminum Company of Canada Ltd. Demerara Bauxite Co. Ltd. Central Canada Loan & Savings Co. The National Trust Company Ltd. Saguenay Transmission Co. Ltd. Alma and Jonquiere Railway Co. Director— Maple Leaf Gardens Ltd. Member of Firm— McCarthy & McCarthy.

Names of Directors of the Bank of Nova Scotia—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
McCurdy, Hon. F. B., P.C., Halifax, N.B. Finance.	President— Trinidad Electric Company Ltd. Halifax Fire Insurance Company. Eastern Trust Company. Trinidad Consolidated Telephones Ltd. Chronicle Company Ltd., Halifax. Director— Canadian General Electric Co. Ltd. Famous Players Canadian Corporation Limited.
McInnes, Hector, K.C., Halifax, N.S. Barrister-at-Law.	President— Nova Scotia Savings Loan & Building Society. Vice-President— Halifax Fire Insurance Co. Director— Brandram-Henderson Ltd. Hollingsworth Whitney of Canada Ltd. North American Life Assurance Co. Chairman, Board of Governors— Dalhousie University.
McLeod, J. A., Toronto, Ont. President, The Bank of Nova Scotia.	Director— National Trust Company Ltd. Canada Life Assurance Company. Toronto Savings & Loan Company. Empire Realty Company Ltd.
Moore, S. J., Toronto, Ont. President, Moore Corporation Limited.	President— Moore Corporation Limited. American Sales Book Co. Ltd. (Subsidiary of Moore Corporation Ltd.) Gilman Fanfold Corporation Ltd. (Subsidiary of Moore Corporation Ltd.) F. N. Burt Company Limited. Borden's Limited Permanent Securities Limited Manifold Securities Limited. Vice-President— Imperial Life Assurance Company of Canada. Chairman— Pacific Manifolding Book Co. Ltd. (Subsidiary of Moore Corporation Ltd.) City Dairy Company Ltd. (Subsidiary of Borden's Limited) Director— Drimilk Company Limited (Subsidiary of Borden's Limited) Toronto General Trusts Corporation Limited. Home & Foreign Securities Limited. Toronto Brick Company Limited. Northern Ontario Building Limited.

Names of Directors of the Bank of Nova Scotia—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
Ross, Honourable W. D., Toronto, Ont. Finance.	President— Scotia Company Limited. Northern Ontario Building Ltd. Director— Northern Mexico Power & Development Co. Ltd. Hamilton United Theatres Ltd. Canadian General Electric Co. Ltd. International Power Company, Ltd. Burlington Steel Company Ltd. Alberta Land Syndicate. Continental Land Corporation, Ltd. Continental Securities Corporation Ltd. Chairman— Puerto Rico Power Co. Ltd.
Smith, O. E., Halifax, N.S. Merchant.	President— Maritime Telegraph & Telephone Co. Ltd. Atlantic Utilities Limited. Vice-President— Trinidad Consolidated Telephones Ltd. Eastern Canada Savings & Loan Co. Eastern Trust Company. Director— North Atlantic Fisheries Ltd. Acadia Sugar Refining Co. Ltd. Canadian International Investment Trust Ltd. International Power Company Ltd. Island Telephone Co. Ltd. Partner— J. E. Morse & Company, Halifax.
Smith, Sidney T., Winnipeg, Man., Grain Merchant.	President— Smith-Murphy Company Inc. Reliance Grain Company Ltd. Province Elevator Co. Ltd. Alliance Grain Company Ltd. Smith, Murphy and Milroy Ltd. Director— Ogilvie Flour Mills Co. Ltd. Northern Trust Company. Lake Shippers Clearing Association. Winnipeg Grain and Produce Clearing Association.
Starr, F. P., Saint John, N.B., Coal Merchant.	President— Turnbull Real Estate Co. Ltd Starr Limited, R.P. & W.F. Vice-President— Admiral Beatty Hotel Co. Ltd. Cornwall & York Cotton Mills Ltd. Director— Pender & Co. Ltd., James. Director & Chairman of Local Board— Eastern Trust Company.
Tory, Hon. J. C., LL.D., Halifax, N.S., Retired.	Director— Eastern Trust Company, The

Names of Directors of the Bank of Nova Scotia—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
White, W. W., Saint John, N.B., Surgeon.	Member— Saint John Advisory Committee of The Eastern Trust Company.

THE BANK OF TORONTO

as of 1st March, 1934

Names of Directors of the Bank of Toronto—Address and Occupation of each.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*
W. G. Gooderham, President, Toronto, Ont., Gentleman.	President— Canada Permanent Mortgage Corporation. Canada Permanent Trust Company. Manufacturers Life Insurance Company.
John R. Lamb, Vice-President, Toronto, Ont., Vice-President, Bank of Toronto.	Director— Canadian Liquid Air Company Limited, Montreal. Dominion & Anglo Investment Corpn. Ltd., Toronto.
William Stone, Toronto & Ingersoll, Ont., Gentleman.	Director— Canada Permanent Mortgage Corporation. Canada Permanent Trust Company. A. W. Chase Coy. Ltd. Manufacturers Life Insurance Company. Chairman of Board— Wm. Stone Sons Limited, Ingersoll.
Col. A. E. Gooderham, Toronto, Ont., Gentleman.	Director— British American Oil Company Limited. Casualty Company of Canada. 2nd Vice Pres.— Canada Permanent Mortgage Corporation. 2nd Vice Pres.— Canada Permanent Trust Company. President— Dominion of Canada General Insurance Company.
Brig.-Gen. F. S. Meighen, Montreal, Que., Manufacturer.	Director— Aldred Investment Corporation (Canada) Montreal. Canadian Pacific Railway Company. Canada North West Land Company, Limited. President— Inter-City Baking Company, Limited. Inter-City Western Bakeries Limited. Lake of the Woods Milling Company, Limited, Montreal. New Brunswick Railway Company

Names of Directors of the Bank of Toronto—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
Col. Wm. I. Gear, Montreal, Que., Gentleman.	Chairman of Board— Cassidy's Limited. President— Crown Trust Company. William I. Gear, Son & Company, Incorporated, Montreal. Vice-Pres.— Keewatin Flour Mills Company, Limited. Director— Wabasso Cotton Company, Limited.
Paul J. Myler, Hamilton, Ont., Manufacturer.	President & Chairman— Canadian Westinghouse Company, Limited. Vice-Pres.— Landed Banking & Loan Company. Director— The Toronto General Trusts Corporation.
Archibald H. Campbell, Toronto, Ont., Gentleman.	Director— Consumers' Gas Company of Toronto. The Toronto General Trusts Corporation.
John I. McFarland, Calgary, Alta., General Manager.	Director— Burns & Company, Limited. President— Imperial Motors Limited. Director— Manitoba Bridge and Iron Works. Metals, Limited. President— Mutual Acceptance Corporation, Limited. Director— McDougall-Segur Exploration Company of Canada Limited.
Hon. Jas. D. Chaplin, M.P., St. Catharines, Ont., Manufacturer.	Director— T. G. Bright Company, Limited. J. M. Consolidated Mines Limited, Toronto. Hayes Wheels and Forgings Limited. The Utica Mines Company. President— Welland Vale Manufacturing Company, Limited. Director— Canadian General Rubber Company, Limited.
Thomas F. How, Toronto, Ont., Gentleman.	

Names of Directors of the Bank of Toronto—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
Frederick K. Morrow, Toronto, Ont., Financier.	Trustee— Canadian National Railways. Director— Christie Brown & Company, Limited. Consolidated Bakeries of Canada, Limited. President— Essa Securities Limited. Director— Federal Fire Insurance Company. Fairchild Aircraft Limited. Hiram-Walker Gooderham & Worts Limited. Maple Leaf Gardens. Massey-Harris Company Limited. The Ogilvie Flour Mills Company Limited. Robinson Consolidated Cone Company, Limited. Vice-President— Toronto Elevators Limited. Chairman— Wilsil Limited, Montreal.
Harvey B. Henwood, Toronto, Ont., General Manager	Director— Crown Trust Company. Manufacturers Life Insurance Company.
J. Douglas Woods, Toronto, Ont., Manufacturer.	Director— Dupont Textile Limited. Gore District Mutual Fire Insurance Company. President— Harvey Knitting Company Limited. Hosiers Limited. Director— A. T. Reid & Company Limited. Toronto Hosiery Company, Limited. President— J. D. Woods & Company Limited. Director— Woods & Walker Limited. President— Woods Underwear Company Limited. York Paper Box Company Limited Vice-President— York Knitting Mills Limited. President— Zimmerknit Company Limited.

Names of Directors of the Bank of Toronto—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
George Kidd, Vancouver, B.C., Gentleman.	President— All-Canadian Investment Corporation Limited. Director— B.C. Power Corporation Limited. British Columbia Packers Limited. B.C. Pulp & Paper Company, Limited. Vice-President— Bralorne Limited. Bradian Mines Limited. Director— Granville Properties Limited. President— Huntting Merritt Lumber Company, Limited. Director— Home Oil Distributors Limited. Hayes Manufacturing Company Limited. McLennan, McFeely & Prior Limited. President— Vancouver Parts Company Limited. Director— Waghorn Gwynn & Company Limited. President— Yorkshire Savings & Loan Association. Director— Yorkshire & Pacific Securities Limited. Yorkshire & Canadian Trust Limited.
Aubrey Davis, Newmarket, Ont. Manufacturer.	Vice-Pres— Davis Leather Company, Limited.

LA BANQUE PROVINCIALE DU CANADA

Names of Directors of La Banque Provinciale du Canada.	*Names of other Banks, firms, companies or corporations of which the Bank director is a Director or member.*
Mr. S. J. B. Rolland,	President— Provincial Bank of Canada. Vice-President— Pacific Dairies Ltd., Saint John, N.B. Director— Trans-Canada Ins. Co., Montreal, Administration & Trust Society, Montreal. J. B. Rolland & Fils, Montreal. Chairman of the Board— Rolland Paper Box Co. Ltd.
Mr. H. Gérin-Lajoie, K.C.,	1st Vice-President— Provincial Bank of Canada.
Mr. Alph. Raymond,	2nd Vice-President— Provincial Bank of Canada. Director— Catelli Macaroni Products Corp. Ltd., Montreal. Administration & Trust Society, Montreal.

Names of Directors of La Banque Provinciale du Canada—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
Mr. Oscar Dufresne,	Director— Provincial Bank of Canada. Sun Trust Company, Montreal. President— Dufresne & Locke Limited, Montreal. Dufresne Construction Co. Ltd., Montreal. Librairie Beauchemin Limitée, Montreal.
Mr. Joseph Sirois, N.P.,	Director— Provincial Bank of Canada. Administration & Trust Society, Montreal. Catelli Macaroni Products Corp. Ltd., Montreal.
Mr. L. J. Codère,	Director— Provincial Bank of Canada.
Mr. Charles A. Roy,	Director— Provincial Bank of Canada. Administration & Trust Society, Montreal. La Sauvegarde Ass. Co., Montreal.
Mr. Alfred Lambert,	Director— Provincial Bank of Canada. President— Alfred Lambert Limitée, Montreal. Acton Rubber Co., Acton Vale, P.Q. Acton Shoe Co., Acton Vale, P.Q. Director— Canada Accident & Fire Ass. Co., Montreal.
Mr. Geo. A. Savoy,	Director— Provincial Bank of Canada. President— Dom. Blank Book Co. Ltd., St-Jean, P.Q.

THE CANADIAN BANK OF COMMERCE

Names of Directors of The Canadian Bank of Commerce, with address and occupation.	*Names of Other Banks, Firms, Companies or Corporations of which the Director is a Director or Member.*
Aird, Sir John, President— The Canadian Bank of Commerce 25 King Street West Toronto, Ont.	Director— Brazilian Traction Light & Power Co. Ltd. British America Assurance Company. Canadian Western Lumber Co. Ltd. Policy Holders' Director—Imperial Life Assurance Company. National Trust Company Limited. Western Assurance Company. Western Canada Flour Mills Co. Ltd.

Names of Directors of the Canadian Bank of Commerce—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
Allan, George William, Lawyer Victory Building 333 Main Street Winnipeg, Man.	Senior Partner— Allan, Laird, Davis, Haffner & Hobkirk; Allan, Patton, MacInnes & Milne. President— G. W. Allan Farming Company Ltd. Allan Securities Company Limited. Beaver Fire Insurance Company. Director— Beaver Lumber Company Limited. British American Oil Company Ltd. Canada Cement Company Limited. Canada Permanent Mortgage Corporation. Canada Permanent Trust Company. Dominion Bridge Company Limited. President— Great West Life Assurance Company. Guarantee Company of North America. Home Investment & Savings Association. Director and Chairman of Canadian Committee—Hudson's Bay Company and Subsidiaries. Member of London Committee—Hudson's Bay Company and subsidiaries. Director— Lake of the Woods Milling Company Limited. National Trust Compay Limited. Northern Mortgage Company. Northern Trusts Company. Member of Canadian Advisory Board—Patriotic Assurance Co. Ltd. Member of Canadian Advisory Board—Planet Assurance Co. Ltd. Chairman of Advisory Board of Directors for Canada of Sun Insurance Office Limited. Director— The Massey-Harris Company Limited.
Ambrose, Howard Sudlow— Manufacturer, The Tuckett Tobacco Company Limited, Hamilton, Ont.	President and General Manager—The Tuckett Tobacco Co. Limited and subsidiaries.
Auld, Alexander Rennie— Merchant, 34 Wellington Street West, Toronto, Ont.	Director—Consumers' Gas Company. President—Nisbet & Auld Limited.
Bickell, John Paris— President, McIntyre Porcupine Mines Ltd., 15 King Street West, Toronto, Ont.	President— Castle-Tretheway Mines Limited. Hamilton United Theatres Limited. Director— The International Nickel Co. of Canada Limited. The Imperial Life Assurance Co. of Canada. President—McIntyre Porcupine Mines Limited. Senior Partner—Thomson & McKinnon (Members of New York Stock Exchange).

Names of Directors of the Canadian Bank of Commerce—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
Colby, Charles William— Vice-President, Aldred & Company, 1240 Pine Avenue West, Montreal, Que.	Vice-President— Aldred & Company. Asbestos Corporation Limited. Director— Dominion Stores Limited. Dominion Wire Rope Company. Vice-President—Goulds Pump, Inc. Director— Moore Corporation, Ltd., and Subsidiaries. Remington Rand, Incorporated.
Cowan, Frederick William— Retired, 160 Teddington Park Blvd., Toronto, Ont.	(No other Directorates).
Cox, Herbert Coplin— Retired, "Ennisclare," Oakville, Ont.	Vice-President—British America Assurance Company. Chairman of the Board—Canada Life Assurance Company. Director—Canadian General Electric Company Limited. Vice-President— Central Canada Loan & Savings Company. National Trust Company Limited. President—Toronto Savings & Loan Company Limited. Vice-President—Western Assurance Company.
Edwards, Gordon Cameron— Retired, Room 505, Victoria Bldg., 140 Wellington Street, Ottawa, Ont.	Director— Borden's Limited. Canada Cement Company Limited. Canada Foundries & Forgings Limited. Canadian Airways Limited. Canadian Canners Limited. President—W. C. Edwards & Company Limited. Director—Standard Paving and Materials Limited. President—Victoria Realty Corporation Limited. Director—Watson and Todd Limited.
Flavelle, Sir Joseph— Chairman of the Board, The Canadian Bank of Commerce, 25 King Street West, Toronto, Ont.	President—Canadian Marconi Company. Chairman of the Board—National Trust Company Limited.

Names of Directors of the Canadian Bank of Commerce—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
Fuller, Henry Jones— Manufacturer, 40 Wall Street, New York City, N.Y.	Director—Canada Cement Company Limited. Chairman—Canadian Fairbanks-Morse Company Limited. Director— Canadian Ingersoll-Rand. First National Old Colony Corporation, Boston. Gillette Safety Razor Company. National Trust Company Limited. Page-Hersey Tubes Company Limited. Remington Rand Company. Chairman of the Board—Rolls-Royce Company of America. Director— Savage Arms Company. The Shawinigan Water & Power Company.
Gow, Colonel Walter— Lawyer, Blake Lash Anglin & Cassels, 25 King Street West, Toronto, Ont.	Partner—Blake Lash Anglin & Cassels. Director— Barcelona Traction Light & Power Company. Brazilian Traction Light & Power Company and subsidiaries. Canadian International Light & Power Investment Limited. Mexican Light & Power Company. Mexico Tramways Company.
Hutchison, William Watson— Retired, 2162 Sherbrooke Street West, Montreal, Que.	Director— Catelli Macaroni Products Corporation Ltd. International Paints (Canada) Limited. Stewart & Wood Limited.
Jones, Frank Percy— Retired, Room 324, Canada Cement Bldg., Montreal, Que.	Director— Canada Cement Company Limited. Canadian General Investments Limited. President—Consumers Glass Company Limited. Director— Massey-Harris Company Limited. National Breweries Limited. Ontario Steel Products.
Kirkpatrick, Alexander Mainwaring Morris— Insurance Underwriter, 15 Toronto St., Toronto, Ont.	Director—Economic Investment Trust Limited. Vice-President—Toronto Mortgage Company.

Names of Directors of the Canadian Bank of Commerce—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
Lash Miller— Lawyer, 25 King Street West, Toronto, Ont.	Partner—Blake, Lash, Anglin & Cassels. Vice-President—Barcelona Traction Light & Power Co. Ltd. President—Brazilian Traction Light & Power Co. Ltd. and subsidiaries. Director—British America Assurance Company. Chairman— Canadian International Light & Power Investments Limited. Mexican Light & Power Co. Ltd. Mexico Tramways Company. Director— National Trust Company Limited. Société Internationale d'Energie Hydro Electrique. Western Assurance Company.
Logan, Sydney Henry— General Manager, The Canadian Bank of Commerce, 25 King Street West, Toronto, Ont.	Director—Toronto Savings & Loan Co. Ltd.
Mackenzie, Sir Alexander— Retired, Villa Benivieni, Via Benedetto da Maiano, Florence, Italy.	Director—Brazilian Traction Light & Power Co. Ltd. and subsidiaries.
MacMillan, Harvey Reginald— Exporter, H. R. MacMillan Export Co. Ltd., Metropolitan Building, Vancouver, B.C.	President— British Columbia Packers Limited. H. R. MacMillan Export Co. Ltd. and subsidiaries.
McLean, James Stanley— Manufacturer, Canada Packers Limited, Union Stock Yards, Toronto, Ont.	President—Canada Packers Limited and subsidiaries. Director—Confederation Life Association.
Morrow, George Andrew— President, Imperial Life Assurance Company, 26 King Street East, Toronto, Ont.	Vice-President— British America Assurance Company. Burlington Steel Company Limited. Central Canada Loan & Savings Company. President—Imperial Life Assurance Company. Director—National Trust Company Limited. Vice-President—Western Assurance Company. Director—Toronto Savings & Loan Co. Ltd.
Phin, William Egerton— Contractor, 12 Ravenscliffe Ave., Hamilton, Ont.	Chairman of Board—Canadian Dredge & Dock Company Limited. Vice-President—Guelph & Ontario Investment & Savings Society. President—Guelph Trust Company. Director— Hamilton Bridge Company Limited. National Steel Car Corporation Limited. Tuckett Tobacco Company Limited.

Names of Directors of the Canadian Bank of Commerce—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
Pitblado, Isaac— Barrister, Bank of Hamilton Chambers, 395 Main Street, Winnipeg, Man.	Director— Blue Ribbon Corporation Limited. Lake of the Woods Milling Co. Ltd. Mutual Life Assurance Co. of Canada. Partner—Pitblado, Hoskin & Company. Director—Toronto General Trusts Corporation.
Raymond, Donat, The Hon. Senator, 360 St. James Street, Montreal, Que.	Director—Dominion Glass Company Limited. Policy Holders' Director—Imperial Life Assurance Company. Director— National Breweries Limited. Title Guarantee & Trust Corporation. Fire Insurance Co. of Canada. Borden's Limited. Canadian-International Paper Company Limited. Trust General du Canada.
Richardson, James Armstrong— Grain Merchant, Jas. Richardson & Sons Ltd., Grain Exchange, Winnipeg, Man.	President— Acme Manufacturing Co. Ltd. Canadian Airways Limited. Director— Canadian General Electric Co. Ltd. Canadian Board of Royal Exchange Assurance of London, Eng. Canadian Pacific Railway. Canadian Vickers Limited. Great West Life Assurance Company. Vice-President—Guardian Realty Co. of Canada, Ltd. Director— Hamilton Bridge Co. Ltd. International Nickel Co. of Canada, Ltd. National Trust Co. Ltd. President—James Richardson & Sons Ltd. and subsidiaries. Director—Valley Camp Coal Company, Cleveland, O. Member Canadian Committee—Hudson's Bay Company.
Riley, William Pitt— Wholesale Grocer, Western Grocers Limited, 116 Market Street East, Winnipeg, Man.	Director, Winnipeg Committee— Great West Life Assurance Company. Toronto General Trusts Corporation. President—Western Grocers Limited.

Names of Directors of the Canadian Bank of Commerce—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
Russell, Thomas Alexander— Manufacturer, 1209 King Street West, Toronto, Ont.	Director— Beauharnois Power Corporation Ltd. and subsidiaries. Canada Cement Company Limited. President— Canada Cycle & Motor Company, Limited. Canadian Acme Screw & Gear Limited. Director— Canadian International Paper Co. Ltd. Canadian Vickers Limited. President—Massey-Harris Company Limited. Vice-President—Monarch Knitting Company Limited. Director—Mutual Life Insurance Co. of Canada. President— Russell Motor Car Company Limited. Sawyer-Massey Limited. Director— Toronto General Trusts Corporation. United Typewriter Company Limited. President—Willys-Overland Limited.
Shaughnessy, The Rt. Hon. Lord— Lawyer, Canada Cement Building, Montreal, Que.	President—Canadian Industrial Alcohol Co. Ltd. and subsidiaries. Director— Canadian Pacific Railway Company Lake of the Woods Milling Co. Ltd. West Kootenay Power & Light Co. Ltd. Chairman—York Insurance Co. Ltd. (Canada).
Stuart, John— Manufacturer, 141 West Jackson Blvd., Room 1900, Chicago, Ill.	Director— Canada Life Assurance Company. Chicago Daily News. Chicago & North Western Railway Co. Northern Trust Company. President—Quaker Oats Company. Director— International Harvester Company. Elgin National Watch Company.

Names of Directors of the Canadian Bank of Commerce—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
White, Arthur Frank— President, The Dominion Securities Corporation Ltd., 15 King Street West, Toronto, Ont.	Director— Beauharnois Power Corporation Limited and subsidiaries. Canadian Hydro Electric Corp. Ltd. Confederation Life Assurance Co. The Debenture & Securities Corp. Dominion & Anglo Investment Corporation Limited. President—The Dominion Securities Corporation Limited. Director— International Hydro Electric System. Provincial Paper Limited. Vice-President—St. Lawrence Corp. Ltd. & Subsidiaries. Director— The Toronto Mortgage Company. Tri Continental Corporation. Union Gas Company of Canada Ltd. and Subsidiaries.
White, Sir Thomas (The Rt. Hon.)— Lawyer, The Canadian Bank of Commerce, 25 King Street West, Toronto, Ont.	Director— Barcelona Traction Light & Power Co. Ltd. Brazilian Traction Light & Power Co. Ltd. and subsidiaries. Policy Holders' Director— Canada Life Assurance Company. Director— Mexico Tramways Limited. National Trust Company Limited. Steel Company of Canada Limited.
Wood, Edward Rogers— Financier, 26 King Street East, Toronto, Ont.	Director—Barcelona Traction Light & Power Co. Ltd. Vice-President—Brazilian Traction Light & Power Co. Ltd. and subsidiaries. Director—British America Assurance Company. Vice-President—Canada Life Assurance Company. President—Central Canada Loan & Savings Company. Director— Massey-Harris Company Limited. Mexican Light & Power Company. Mexico Tramways Company. Vice-President—National Trust Company Limited. Director— Provincial Paper Limited. Toronto Savings & Loan Company. Western Assurance Company.
Wood, Thomas Henderson— Insurance Underwriter, 15 Toronto Street, Toronto, Ont.	Director Consumers' Gas Company. Canadian Advisory Committee—Economic Investment Trust Ltd. President—Toronto Mortgage Company.
Young, Alan Vernon— Manufacturer, The Hamilton Cotton Co. Ltd., Hamilton, Ont.	Vice-President—Cosmos Imperial Mills Limited. President—Hamilton Cotton Company Limited. Director— Landed Banking & Loan Company Limited. Zimmerknit Limited.

THE ROYAL BANK OF CANADA

MONTREAL

Names of Directors of The Royal Bank of Canada.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
Sir Herbert S. Holt, K.B.	Ch. of Bd., Montreal Light, Heat & Power Cons. President— Montreal Trust Co. Hydro-Electric Bond & Share Corp. Royal Victoria Hospital. London Canadian Investment Co. Ch. of Bd. Andian National Corp. V. Pres. & Dir.— Montreal Cottons, Ltd. Dominion Textile Co., Ltd., and subsidiaries. Hillcrest Collieries, Ltd. Mem. Exec. Comm. & Dir., Canadian Pacific Railway. Director— Anglo Canadian Pulp & Paper Co. B. C. Power Corp. Dominion Steel & Coal Corp., Ltd. Canada Cement Co. Canadian Bronze Co. Canadian General Electric Co. Consolidated Bakeries of Canada, Ltd. Consolidated Mining & Smelting Co. of Canada, Ltd. Dominion Bridge Co., Ltd., and subsidiaries. Dominion Engineering Works, Ltd. Dominion Tar & Chemical Co. Gillette Safety Razor Co. Holt, Renfrew & Co. Howard Smith Paper Mills, Ltd. Imperial Life Assurance Co. International Mining Corp. Minneapolis, St. Paul & Sault Ste. Marie Railway Co. Ogilvie Flour Co. Ritz-Carlton Hotel Co. Shawinigan Water & Power Co. Simpson, Ltd. Sun Life Assurance Co. Tuckett Tobacco Co. United Cigar Stores of America. Canadian Airways Co. Investment Bond & Share Co. Tobacco Products Corp.

Names of Directors of The Royal Bank of Canada.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
Hon. A. J. Brown, K.C.	Member of Brown, Montgomery & McMichael. V. Pres. & Dir.— Canada Steamship Lines, Ltd. Montreal Trust Co. Dominion Engineering Works, Ltd. Director— Dominion Bridge Company and subsidiaries. Foundation Co. of Canada, Ltd. Steel Co. of Canada, Ltd. Holt, Renfrew & Co. Northern Electric Co. Montreal City & District Savings Bank. Paton Manufacturing Co.
M. W. Wilson.	Director— Montreal Trust Co. Beauharnois Power Corp., Ltd., & subsidiaries. Canadian Airways Ltd.
G. H. Duggan.	Pres. & Man. Dir., Dominion Bridge Co. & subsidiaries. President — Dominion Engineering Works Ltd., & subsidiaries. Director— Dominion Steel & Coal Co. Eastern Canada Steel & Iron Works. Steel Co. of Canada, Ltd. Hillcrest Collieries, Ltd. Fairchild Aircraft, Ltd. Montreal Trust Co. Canadian Pratt & Whitney Aircraft Co. Consumers Cordage Co.
Robert Adair.	President—Hartt & Adair Coal Co., Ltd. Director— Sun Life Assurance Co. of Canada. Montreal Trust Co. Title Guarantee Co.

Names of Directors of The Royal Bank of Canada.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
Julian C. Smith, LL.D.	President— Montreal Tramways Co. Quebec Power Co. Shawinigan Water & Power Co. & subsidiaries. Chairman— Claude Neon General Advertising, Ltd. President— United Securities, Ltd. Canadian Light & Power Co. V. Pres. & Dir.— Dominion Bridge Co. & subsidiaries. Dominion Engineering Works, Ltd. Fairchild Aircraft, Ltd. Director— Aldred Investment Corp. (Canada). Canadian General Electric Co. Duke-Price Power Co. & subsidiaries. Montreal Light, Heat & Power Co. The National Breweries, Ltd. Montreal Trust Co. Consolidated Paper Co. Canadian Liquid Air Co. Jamaica Public Service & subsidiaries. Sun Insurance Co. of London, Eng.
J. S. Norris.	President— Montreal Light, Heat & Power Cons. and subsidiaries. Beauharnois Power Co. and subsidiaries. Montreal Island Power Co. Montreal Coke & Manufacturing Co. Canadian Lake Carriers, Ltd. Keystone Transports Ltd. V. Pres. & Dir.— Canadian Light & Power Co. United Securities, Ltd. Hydro Electric Bond & Share Co. Director—Montreal Trust Co.
W. F. Angus.	V. Pres. & Dir.— Canadian Car & Foundry Co. Ltd. Ltd. & subsidiaries. Dominion Bridge Co., Ltd. & subsidiaries. Mem. Exec. Comm. & Dir.— Bell Telephone Co. of Canada. Director— Canadian Locomotive Co., Ltd. Dominion Engineering Works, Ltd. and subsidiaries. Foundation Co. of Canada, Ltd. Northern Electric Co., Ltd. Eastern Canada Steel & Iron Works, Ltd. Montreal Trust Co.

Names of Directors of The Royal Bank of Canada.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
P. F. Sise.	President—Northern Electric Co. Director— Amalgamated Electric Corp., Ltd. Lake of the Woods Milling Co. Industrial Acceptance Corp., Ltd. Bell Telephone Co. of Canada. Dominion Engineering Works, Montreal Trust Co.
TORONTO	
W. J. Sheppard.	V. Pres. & Dir.— McIntyre Porcupine Mines, Ltd. Blue Diamond Coal Co. Canadian Coalfields, Ltd. Hamilton United Theatres, Ltd. Director— The Temiskaming Mining Co. Castle-Trethewey Mines, Ltd. Canadian Dredge & Dock Co. Famous Players Canadian Corp., Ltd. Standard Chemical Co. St. John Dry Dock & Shipbuilding Co.
A. E. Dyment.	Ch. of Bd. Canadian General Electric Co. President— Canadian Radio Patents, Ltd. Radio Valve Co., of Canada, Ltd. V. Pres. & Dir., Dominion Sugar Co. Director— Canadian Allis Chalmers, Ltd. Canadian Bronze Co., Ltd. Canadian Marconi Co. Northern Mexico Power & Development Co. Montreal Trust Co.
C. B. McNaught—	Chairman of Board & Director— Dominion Steel & Coal Corp., Ltd. President— Sterling Coal Co., Toronto. Conger Lehigh Coal Co., Toronto. Reed, Shaw & McNaught, Ltd., Montreal. Vice President— Goodyear Tire & Rubber Co., Toronto. Partner— Reed, Shaw & McNaught, Toronto. Director— Sun Life Assurance Co. Dominion Bridge Co. Canada Steamship Lines. Howard Smith Paper Co. Montreal Trust Co. Foundation Co. Kelvinator Co. of Canada. Goodyear Cotton Co., Toronto. Pacific Coast Fire Insurance Co., Vancouver. Building Products Co., Montreal.

Names of Directors of The Royal Bank of Canada.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
Stephen Haas—	President— Geo. H. Hees, Son & Co. Vice President & Director— Canadian General Electric Co. Director— Columbia Mills Inc., New York. New York Power Corp., New York
G. Harrison Smith—	President— Imperial Oil, Ltd, International Petroleum Co. Vice-President and Director— Andian National Corp., Ltd.
WINNIPEG	
W. H. McWilliams—	President— Canadian Consolidated Grain Co. Western Canada Motor Car Co. Western Claude Neon Light Co. Vice President & Director— Western Grocers, Ltd. Dominion Malting Co. Grain Insurance & Guarantee Co. Director— Holt, Renfrew & Co. National Trust Co. Great West Life Assurance Co. Western Assurance Co. British American Insurance Co. Monarch Lumber Co. Northern Elevator Co. Inter-Continental Co. Canadian Elevator Co.
Capt. Wm. Robinson—	Director— Northern Mortgage Co. The Fire Insurance Co. of Canada
A. McTavish Campbell—	Director—National Trust Company.
R. T. Riley—	Vice President, Chairman & Director— The Great-West Assurance Co. President— Northern Trusts Co. Canadian Fire Insurance Co. Canadian Indemnity Co. Vice President & Director— Northern Mortgage Co.
HALIFAX	
Hon. Wm. A. Black, P.C., M.P.—	President— Eastern Trust Co. Eastern Canada Savings & Loan Co. Maritime Life Assurance Co. Pickford & Black, Ltd. Director— Brandram-Henderson, Ltd. Fourth Canadian General Investment Trust Ltd.

Names of Directors of The Royal Bank of Canada.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
G. MacGregor Mitchell—	President— G. P. Mitchell & Sons, Ltd. Director— Brandram-Henderson, Ltd. International Power Co. Moirs, Ltd. N.S. Light & Power Co. N.S. Public Cold Storage Terminals, Ltd.
J. McG. Stewart, K.C.—	President—Acadia Sugar Refining Co. Vice President—Mersey Paper Co. Vice President & Director— N.S. Light & Power Co. Director— The Avon River Power Co. Lovat Steamship Co. The Eastern Trust Co.
W. H. Malkin, Vancouver, B.C.—	President—The W. H. Malkin Co. Ltd. Pacific Coast Fire Insurance Co. Director— B.C. Pulp & Paper Co. Ltd. Coalmont Collieries, Limited. Home Oil Company, Limited. Northern Trusts Company, Winnipeg.

VANCOUVER

W. J. Blake Wilson,	President— Burns & Co., Ltd. Coalmont Collieries, Ltd. Sterling Pacific Oil Co., Ltd. Home Oil Distributors, Ltd. Vice-Pres. and Director— B.C. Pulp & Paper Co., Ltd. Pacific Great Eastern Railway Co. Director— B.C. Power Corp., Ltd. The Consolidated Mining & Smelting Co. of Canada, Ltd. Canadian Pacific Railway Co. Dominion Bridge Co., Ltd. Pacific Mills, Ltd. Mutual Life Assurance Co. of Canada. Sun Fire Insurance Co. P. Burns Ranches, Ltd. Vancouver, Victoria & Eastern Railway & Navigation Co. Canadian Airways, Ltd. Home Oil Co., Ltd. London & Western Trusts Co. Canadian Bakeries, Ltd. Canadian General Electric Co., Ltd.

HAMILTON

C. S. Wilcox,	Chairman of Bd. Steel Co. of Canada, Ltd. Director— Tuckett Tobacco Co. Canada Crushed Stone Corp., Ltd. National Trust Co.

Names of Directors of The Royal Bank of Canada.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
QUEBEC	
John T. Ross,	Director— Quebec Power Co. Quebec Fire Insurance Co.

THE DOMINION BANK

Names of Directors of The Dominion Bank— *Address and Occupation of each.*	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*
Austin, A. W., 620 Confederation Life Bldg., Toronto, Ont. Occupation— Retired.	President— Consumers' Gas Co., Toronto. Director— The Dominion Bank, Toronto. President— Canada Northwest Land Co. Western Provinces Land Co.
Bogert, C. A., 405 Dominion Bank Bldg., Toronto, Ont. Occupation— Chairman of the Board, The Dominion Bank.	Director— The Dominion Bank. Canada Life Assurance Co. Member— Governing Body of Trinity College School, Port Hope.
Carlisle, C. H., 152 Simcoe Street, Toronto, Ont. President, Goodyear Tire & Rubber Co. of Canada, Ltd.	President— The Dominion Bank. Goodyear Tire & Rubber Co. of Canada. Goodyear Cotton Co. of Canada, Ltd. Canada Bread Co. Ltd. Director— The Dominion Bank. Montreal Trust Co. Dominion Bridge Co. Ltd. Canadian General Investments, Ltd. Governor— Sick Children's Hospital, Toronto.
Eaton, R. Y. 199 Yonge Street, Toronto, Ont. President, The T. Eaton Co. Ltd.	Director— The Dominion Bank. The T. Eaton Co. Ltd., Toronto. The T. Eaton Co. Ltd., Montreal. The T. Eaton Co. Maritimes Ltd. The Canadian Department Stores, Limited. The T. Eaton Drug Co. Ltd. The T. Eaton Realty Co. Ltd. The T. Eaton Life Assurance Co. The T. Eaton General Insurance Co. The T. Eaton Knitting Co. Ltd.
Gourlay, R. J., Winnipeg, Man. Occupation—General Manager, Beaver Lumber Co. Ltd.	General Manager— Beaver Lumber Co. Ltd. Director— Beaver Lumber Co. Ltd. and Associated Companies. The Dominion Bank. Manitoba Bridge & Iron Wks. Ltd. Monarch Life Assurance Co. Home Investment & Savings Assn. The Northern Trusts Co. Member— Canadian Committee, Hudson's Bay Co.

Names of Directors of The Dominion Bank—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
E. W. Hamber, Vancouver, B.C. Occupation—Lumberman.	Director— British Col. Mills Timber & Trading Co. Ltd. Hastings Logging Co. Ltd. Hastings Sawmill Co. Ltd. Middleboro Collieries, Ltd. Yale Development Co. Ltd. British Columbia Mills Tug & Barge Co. Ltd. London & Canadian Investment Co. Ltd. Consolidated Estates, Ltd. Minnekhada Stock Farms Ltd. Port Moody Lumber Co. Ltd. Vancouver Creosoting Co. Ltd. Member of the Advisory Board of Toronto General Trusts Corporation.
Mackie, J. M., 240 St. James St., Montreal, Que. Occupation—Business Executive.	President— Brinton-Peterborough Carpet Co., Limited, Peterborough. Paton Mfg. Co. Ltd., Sherbrooke. Vice-President— Ritz-Carlton Hotel Co. of Montreal, Ltd. Canadian Converters Co. Ltd., Montreal. Managing Director— Hillcrest Colleries, Ltd. Director— The Dominion Bank, Toronto. Belding-Corticelli Ltd., Montreal.
Matthews, A. C., 1702 Royal Bank Bldg., King and Yonge Sts., Toronto. Occupation—President, Canada Malting Co. Ltd.	President— Canada Malting Co. Ltd., Toronto. Director— The Dominion Bank, Toronto. The Toronto General Trusts Corporation. Confederation Life Association. Canadian Surety Company. Blue Ribbon Corporation Ltd. Maple Leaf Milling Co. Ltd. Kirkland Lake Gold Mining Co. Ltd. Canada North-West Land Co. Ltd. Winnipeg Western Land Co. Ltd. Canada Starch Co. Ltd.
McLaughlin, R. S., Oshawa, Ont. Occupation—President and Director, General Motors of Canada, Ltd.	President and Director— General Motors of Canada Ltd., and Subsidiary Companies. Vice-President and Director— The Dominion Bank. General Motors Corp'n, Delaware, Md. Director— Canadian Pacific Ry. Co. Consolidated Mining and Smelting Co. International Nickel Co. of Canada. Royal Trust Company. Granite Club, Toronto. Ontario Jockey Club, Toronto. Governor— Seigniory Club, Lucerne, Que.

Names of Directors of The Dominion Bank—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
Near, W. W., 100 Church St., Toronto. Occupation—President, Page-Hersey Tubes Ltd.	Vice-President— The Dominion Bank, Toronto. President— Page-Hersey Tubes Ltd., Toronto Cohoes Rolling Mill Co. Page-Hersey Export Co. Ltd. Page-Hersey Trading Co. Inc. Director— Toronto General Trusts Corp'n.
Osler, F. Gordon, 21 Jordan St., Toronto, Ont. Occupation—Financier.	Director— The Dominion Bank, Toronto. Osler & Nanton Trust Co. Canadian Surety Company. The Steel Co. of Canada, Ltd. Consumers' Gas Co., Toronto. Manufacturers Life Ins. Co. Consolidated Mining & Smelting Co. Canada Permanent Mortgage Corporation. Canada Permanent Trust Co. Calgary & Edmonton Corp. Ltd. Consolidated Bakeries of Canada, Ltd. The Canada North-West Land Co. Ltd. Canada Saskatchewan Land Co. Ltd. Winnipeg Western Land Corporation, Ltd. The Debenture & Securities Corporation. Postal Telegraph & Cable Corporation. The Mackay Companies. Humber River Real Estate Co.
Ross, J. Allan, Carlaw Ave., Toronto. Occupation—President and Director, Wm. Wrigley Jr. Co. Ltd. of Canada.	President and Director— Wm. Wrigley Jr. Co. Ltd. of Canada. Vice-President and Director— Wm. Wrigley Jr. Co. of Chicago. Director— The Dominion Bank, Toronto. Crosse & Blackwell Ltd. British Educator Biscuit Co. Ltd. Canadian General Fire Insurance Co. Barker's Bread Ltd.
Williams, H. H., 36-38 King St. East, Toronto, Ont. Occupation—Capitalist.	Director— The Dominion Bank, Toronto. Toronto General Trusts Corp'n. Imperial Life Assurance Co.

BANQUE CANADIENNE NATIONALE

Names of Directors of Banque Canadienne Nationale—Address and Occupation of each.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—
Honourable J. M. Wilson, Senator, President, 112 St. James St. W., Montreal.	President— Windsor Hotel Limited. Trust Général du Canada. Director— Montreal Light H. & P. Co. Title Guarantee & Trust Corp. Montreal Island Power Co.

Names of Directors of Banque Canadienne Nationale—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
Sir George Garneau, Vice-President, 71 Dalhousie St., Quebec.	President— Garneau Limitée. Quebec Land Co. La Caisse d'Economie de Notre Dame de Québec. Director— Bell Telephone Co. Trust Général du Canada. Continental Life Ins. Co. Donnacona Paper Co.
Beaudry Leman, Vice-President & General Manager, 112 St. James St. W., Montreal.	Vice-President— Trust Général du Canada. Director— Montreal Tramways Co. Shawinigan Water & Power Co. Provincial Transport Co. Fairchild Aircraft Co. Canadian Airways Limited. Ogilvie Flour Mills Co. Ltd. Consolidated Paper Corp.
Honourable C. P. Beaubien, K.C., Senator, Director, 84 Notre-Dame St. W., Montreal.	Director— British American Oil Co. Ltd. Dominion Steel & Coal Corp. Canadian Car & Foundry Co. Beaubien Limited. Insurance Co. of Canada. Nova Scotia Steel & Coal Co. Dominion Coal Co.
Armand Chaput, Director, 477 St. Francois-Xavier St., Montreal.	Director— Chas. Gurd & Co. Chas. Gurd & Co. (Maritime) Ltd. Trans Canada Assurance Co.
A. N. Drolet, Director, 67, Dalhousie, Quebec.	Director— Trust Général du Canada. Caisse d'Economie de Notre-Dame de Québec. Société de prêts et Placements. President— P. G. Bussiere Limited.
J. H. Fortier, Director, 273 St. Paul St., Quebec.	President and General Manager— P. T. Légaré Co. Provincial Transport Co. Percival Plough & Stove Co. President— L'Evènement Publishing Co. Le Nouvelliste Publ. Co. Vice-President and Director— Eastern Canada Steel & Iron Works Co. Ltd. Director— Canada Steamship Lines Ltd. Canadian Gen. Investments Ltd. Canadian Intern. Paper Co. Quebec Power Co. La Caisse d'Economie de Notre-Dame de Québec. Canada Carriage & Body Co. Shawinigan Water & Power Co.

Names of Directors of Banque Canadienne Nationale—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
C. E. Gravel, Director, 84 Notre-Dame St. W., Montreal.	Director— Dominion Oilcloth & Linoleum. St. Lawrence Flour Mills Co. Canada Linseed Oil Mills Ltd. Manufacturers Holdings Ltd.
Charles Laurendeau, K.C., Director, 84 Notre-Dame St. W., Montreal.	Director— Trust Général du Canada. Société Nationale de Fiducie.
Honourable D. O. L'Esperance, Senator, Director, P.O. Box 458, Quebec.	President— Grande Allée Apts., Quebec. Compagnie d'Aqueduc, Montmagny. Director— A. Bélanger Limitée. Vice-President and Director— Trust Général du Canada. Director— Holt, Renfrew & Co. Quebec Power Co.
L. G. Ryan, Director, 378 St. Paul St. West, Montreal.	President— Mallinckrodt Chemical Works. Smith & Nephew Limited. Wingate Chemical Co. Ltd. Chemicals Limited. Vice-President— Monsanto (Canada) Ltd. Director— Consolidated Dyestuffs Corp. Trust Général du Canada.

As of March 1st, 1934.

IMPERIAL BANK OF CANADA

List of Directors as of 1st March, 1934

Names of Directors of the Imperial Bank of Canada, with address and occupation.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—
Frank A. Rolph, President, Rolph-Clark-Stone Limited, Lithographers, Toronto, Ontario.	Toronto Advisory Board The Huron & Erie Mortgage Corporation. C.M. & G. Canadian Investments Limited. North American Life Assurance Company. Board of Governors, St. Andrew's College.
Colonel J. F. Michie, President, Michie & Company, Limited Merchants, Toronto, Ontario.	General Accident Assurance Company of Canada. Scottish Canadian Assurance Corporation. Confederation Life Association. Consumers' Gas Company of Toronto. The Toronto General Trusts Corporation. Dominion Transport Company Limited. Blue Ribbon Corporation Limited, and subsidiaries.

Names of Directors of Imperial Bank of Canada—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
R. S. Waldie, President, The Victoria Harbour Lumber Company, Limited, Toronto, Ontario.	Scottish Canadian Assurance Corporation. Confederation Life Association. General Accident Assurance Company of Canada. Maple Leaf Milling Company Limited. Canadian Bakeries Limited. Canada Bread Company Limited. United Corporations Limited.
G. C. Heintzman, President Heintzman & Company, Limited, Piano Manufacturers, Toronto, Ontario.	Securities Holding Corporation Limited.
J. W. Hobbs, President, Consolidated Plate Glass Company of Canada, Limited, Toronto, Ontario.	Continental Life Insurance Company. Lake of the Woods Milling Company, Limited. Scottish Union & National Insurance Company. Securities Holding Corporation Limited. Canadian Pacific Railway Company. Dominion Glass Company Limited. Dominion Woollens & Worsteds Limited.
W. C. Laidlaw, President, R. Laidlaw Lumber Company, Limited, Toronto, Ontario.	Laidlaw Belton Lumber Company Limited. George H. Belton Lumber Company Limited Windsor Lumber Company Limited. Guelph Lumber Company Limited. Canada & Dominion Sugar Company Limited. Confederation Life Association.
J. A. Northway, President, John Northway & Son, Limited, Merchants, Toronto, Ontario.	General Accident Assurance Company of Canada. Northway Company Limited. Canadian Canners Limited. Howey Gold Mines Limited. H. S. Falls Company Limited.
A. E. Phipps, General Manager, Imperial Bank of Canada, Toronto. Ontario.	The Toronto General Trusts Corporation. Niagara Lower Arch Bridge Company Limited.
G. H. Aikins, K.C., Partner, Messrs. Aikins, Loftus, Aikins, Williams & Company, Barristers, Winnipeg, Manitoba.	The Canadian Indemnity Company. London & Western Trusts Company Limited. Canadian General Securities Limited.
H. E. Sellers, President, Melady, Sellers & Company, Limited, Grain Merchants, Winnipeg, Manitoba.	Federal Grain Limited. The Alberta Pacific Grain Company Limited. Northland Elevator Company Limited. Atlas Flour Mills Company Limited. Pacific Terminal Elevator Company Limited. Vancouver Terminal Company Limited. Superior Feed Company Limited. Prairie Cities Oil Company Limited. Grain Insurance & Guarantee Company. Canadian General Insurance Company. The Great West Life Assurance Company. Manitoba Bridge & Iron Works Limited. Manitoba Rolling Mills Limited. Maple Leaf Milling Company Limited. Advisory Board The Royal Trust Company, Winnipeg.

Names of Directors of Imperial Bank of Canada—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
R. O. McCulloch. President— Goldie & McCulloch Company Limited. Galt, Ontario.	Mutual Life Assurance Co. of Canada. Babcock-Wilcox & Goldie-McCulloch Limited. The Galt Art Metal Company Limited. Canada Machinery Corporation Limited. Waterloo Trust & Savings Company, Ltd. Galt Malleable Iron Company Limited.
W. B. Woods, Vice-President, Gordon Mackay & Company, Limited, Toronto Ont.	Toronto Hosiery Company Limited. C. H. Smith Company Limited, Windsor. York Paper Box Limited. Walker Stores Limited. Textile & Dyers Corporation, Cobourg. Cobourg Dyers Limited. J. H. Gould Limited, St. Thomas. Spencer Stone Limited, Chatham.

BARCLAY'S BANK (CANADA)

List of Directors as at 1st of March, 1934

Names of Directors of Barclay's Bank (Canada)—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—
President, Right Hon. Sir Robert Laird Borden, G.C.M.G., P.C., LL.D., K.C., "Glensmere", 201 Wurtemburg Street, Ottawa, Ont. Barrister at Law.	President— Barclays Trust Company of Canada. Crown Life Insurance Co. Director— Canadian Investment Fund Limited.
Vice-President, Mr. Arthur Blaikie Purvis, 9 Chelsea Place, Montreal, Que. Managing-Director.	President & Man.-Dir.— Canadian Industries Ltd. President— Dunlop Tire & Rubber Goods Company of Canada Ltd. Canadian Safety Fuse Coy. Director— General Motors Corpn. Sun Life Assurance Company of Canada. Canadian Investment Fund Limited. Barclays Trust Co. of Canada. Bell Telephone Company of Canada. Consolidated Paper Corpn. Limited. London, Liverpool & Globe Insurance Co., Ltd.

Names of Directors of Barclay's Bank (Canada)—Address and Occupation of each.—Con.	*Names of other Banks, firms, companies or corporations of which the Bank Director is a Director or Member.*—Con.
Hon. Louis Alexandre Taschereau, LL.D., K.C., 187 Grande Allee, Quebec City, Que. Prime Minister & Attorney-General of the Province of Quebec.	Director— North American Life Assurance Company. Sun Life Assurance Co., of Canada. La Caisse d'Economie Notre Dame de Québec. London, Liverpool & Globe Insurance Co., Ltd. Lucerne-in-Quebec Community Association Ltd. Royal Trust Company. Canadian Investment Fund Limited. Metropolitan Life Insurance Company. Credit Foncier Franco-Canadienne.
Lieut-Col. Allan Angus Magee, D.S.O., K.C., 3767, Cote des Neiges Road, Montreal, Que. Advocate.	Partner— Cook, Magee, Nicholson & O'Donnell. Director— Dominion Rubber Co., Ltd. Barclays Trust Company of Canada. Associated Screen News Ltd. Provincial Transport Coy.
Mr. Charles Strange Macdonald, M.A., 453 Russell Hill Road, Toronto, Ont. General Manager.	President— Confederation Life Association. Chairman— Dominion Scottish Investments Limited. Director— Dominion Fire Insurance Co. Toronto General Trust Co.
Mr. Walter Osborne Stevenson, 54 Lombard Street, London, England. Banker.	Director— Barclays Bank (Dominion, Colonial and Overseas). Barclays Bank (France) Ltd. Barclays Bank, S.A.I., Rome, Italy.
Mr. Herman Poe Alton, 54 Lombard Street, London, England. Banker.	Director— Barclays Trust Company of Canada.
Mr. Julian Stanley Crossley, 54 Lombard Street, London, England. Banker.	Director— Barclays Trust Company of Canada.

APPENDIX "I"

BANK OF MONTREAL DIRECTORS ON OTHER BOARDS WHERE TWO OR MORE

Corporation	Total Number of Directors	Bank Directors	Name
Belding-Corticelli Limited	6	2	W. A. Black, Esq. A. O. Dawson, LL.D.
Bell Telephone Company of Canada	15	5	C. F. Sise, Esq. Major-General The Hon. S.C Mewburn, C.M.G. Lt.-Col. Herbert Molson, C.M.G., M.C. The Hon. Henry Cockshutt. The Hon. Thomas Ahearn, P.C.
Borden Company Limited, Canada	12	3	Sir Charles Gordon, G.B.E. J. W. McConnell, Esq. Major-General The Hon. S. C. Mewburn, C.M.G.
Canada Steamship Lines Ltd	14	2	J. W. McConnell, Esq. R. H. McMaster, Esq.
Canadian Airways Limited	17	2	Sir Charles Gordon, G.B.E. E. W. Beatty, Esq., K.C.
The Canadian Bag Company Limited	7	2	H. R. Drummond, Esq. D. Forbes Angus, Esq.
Canadian Bronze Company Limited	9	2	Sir Charles Gordon, G.B.E. R. H. McMaster, Esq.
Canadian Cottons Limited	7	2	A. O. Dawson, LL.D. W. A. Black, Esq.
Canadian Foreign Investment Corporation Limited	8	3	Lt.-Col. Herbert Molson, C.M.G., M.C. Harold Kennedy, Esq. W. A. Black, Esq.
Canadian Industries Limited	12	3	Sir Charles Gordon, G. B.E. Lt.-Col. Herbert Molson, C.M.G., M.C. R. H. McMaster, Esq.
Canadian Pacific Railway Company	17	6	E. W. Beatty, Esq., K.C. Sir Charles Gordon, G.B.E. The Hon. Henry Cockshutt. W. N. Tilley, Esq., K.C. R. H. McMaster, Esq. W. A. Black, Esq.
Canadian Pacific Express Company	5	2	E. W. Beatty, Esq., K.C. Sir Charles Gordon, G.B.E.
Canadian Pacific Steamships Limited	7	2	E. W. Beatty, Esq., K.C. F. E. Meredith, K.C., LL.D., D.C.L.
Consolidated Mining & Smelting Company of Canada, Limited	14	3	E. W. Beatty, Esq., K.C. W. A. Black, Esq. R. H. McMaster, Esq.
Consolidated Paper Corporation	14	2	R. H. McMaster, Esq. C. F. Sise, Esq.

BANK OF MONTREAL DIRECTORS ON OTHER BOARDS WHERE TWO OR MORE—*Continued*

Corporation	Total Number of Directors	Bank Directors	Name
Dominion Bridge Company Limited	18	3	J. W. McConnell, Esq. The Hon. Patrick Burns. R. H. McMaster, Esq.
Dominion Glass Company Limited	11	3	Sir Charles Gordon, G.B.E. Major-General The Hon. S. C. Mewburn, C.M.G. R. H. McMaster, Esq.
Dominion Rubber Company Limited	13	4	Lt. Col. Herbert Molson, C.M.G., M.C. J. W. McConnell, Esq. R. H. McMaster, Esq. Sir Charles Gordon, G.B.E.
Dominion Textile Company Limited	7	3	Sir Charles Gordon, G.B.E. W. A. Black, Esq. Sir Frederick Williams-Taylor
Drummondville Cotton Company Limited	7	2	Sir Charles Gordon, G.B.E. W. A. Black, Esq.
Guarantee Company of North America	10	2	Sir Charles Gordon, G.B.E. The Hon. Thomas Ahearn, P.C.
International Nickel Company of Canada Limited	25	2	The Hon. Henry Cockshutt. J. W. McConnell, Esq.
Liverpool London and Globe Assurance Company	17	2	Lt.-Col. Herbert Molson, C.M.G., M.C. Sir Frederick Williams-Taylor
Liverpool Manitoba Assurance Company	12	2	F. E. Meredith, K.C., LL.D. D.C.L. Sir Frederick Williams-Taylor.
Montreal Light, Heat & Power Consolidated	12	2	Sir Charles Gordon, G.B.E. J. W. McConnell, Esq.
Montreal London and General Investors Limited	8	3	F. E. Meredith, Esq., K.C., LL.D., D.C.L. Sir Frederick Williams-Taylor. C. F. Sise.
Mutual Life Assurance Company of Canada	15	2	Major-General The Hon. S. C. Mewburn, C.M.G. C. F. Sise, Esq.
Northern Electric Company Limited	11	3	The Hon. Thomas Ahearn, P.C. R. H. McMaster, Esq. C. F. Sise, Esq.
Ogilvie Flour Mills Company Limited	10	3	W. A. Black, Esq. Sir Charles Gordon, G.B.E. J. W. McConnell, Esq.
Royal Exchange Assurance Company	5	2	Sir Charles Gordon, G.B.E. E. W. Beatty, Esq., K.C.

BANK OF MONTREAL DIRECTORS ON OTHER BOARDS WHERE TWO OR MORE—*Concluded*

Corporation	Total Number of Directors	Bank Directors	Name
The Royal Trust Company	25	15	Sir Charles Gordon, G.B.E. H. R. Drummond, Esq. Major-General The Hon. S. C. Mewburn, C.M.G. D. Forbes Angus, Esq. Lt. Col. Herbert Molson, C.M.G., M.C. The Hon. Henry Cockshutt. E. W. Beatty, Esq., K.C. F. E. Meredith, Esq., K.C., LL.D., D.C.L. The Hon. Thomas Ahearn, P.C. J. W. McConnell, Esq. W. A. Black, Esq. W. N. Tilley, Esq., K.C. Sir Frederick Williams-Taylor R. H. McMaster, Esq. C. F. Sise, Esq.
St. Lawrence Corporation Limited	15	2	Sir Charles Gordon, G.B.E. Lt.-Col. Herbert Molson, C.M.G., M.C.
The Standard Life Assurance Company	10	3	D. Forbes Angus, Esq. Sir Charles Gordon, G.B.E. F. E. Meredith, K.C., LL.D., D.C.L.
Steel Company of Canada Limited	11	2	R. H. McMaster, Esq. Major-General The Hon. S. C. Mewburn, C.M.G.
Sun Life Assurance Company of Canada	17	3	E. W. Beatty, Esq., K.C. J. W. McConnell, Esq. R. H. McMaster, Esq.
Tuckett Tobacco Company Limited	12	2	Sir Charles Gordon, G.B.E. Major-General The Hon. S. C. Mewburn, C.M.G.

DIRECTORS OF THE BANK OF NOVA SCOTIA ON OTHER BOARDS (WHERE TWO OR MORE)

Name of Company	Total Number of Company's Directors	Number of the Bank's Directors on the Company's Board
Canada Life Assurance Company Leighton McCarthy, Esq., K.C. J. A. McLeod, Esq.	15	2
Canadian General Electric Company Limited Honourable F. B. McCurdy, P.C. Honourable W. D. Ross.	15	2
Eastern Trust Company Honourable F. B. McCurdy, P.C. O. E. Smith, Esq. F. P. Starr, Esq. Honourable J. C. Tory, LL.D. W. W. White, Esq.	21	5
Fraser & Company Honourable Geo. Bryson. J. B. Fraser, Esq. Honourable Geo. Gordon.	....	3
Halifax Fire Insurance Company Honourable F. B. McCurdy, P.C. Hector McInnes, K.C.	9	2
International Power Company Limited Honourable W. D. Ross. O. E. Smith, Esq.	10	2
Maple Leaf Gardens, Limited A. L. Ellsworth, Esq. Leighton McCarthy, Esq., K.C.	23	2
National Trust Company Limited W. M. Birks, Esq. Leighton McCarthy, Esq., K.C. J. A. McLeod, Esq.	33	3
Northern Ontario Building, Limited S. J. Moore, Esq. Honourable W. D. Ross.	3	2
Nova Scotia Savings Loan and Building Society J. Fred Fraser, Esq. Hector McInnes, Esq., K.C.	5	2
Ottawa River Forest Protective Association, Limited Honourable Geo. Bryson. J. B. Fraser, Esq.	18	2
Toronto General Trusts Corporation Russell Blackburn, Esq. Alexander Maclaren, Esq. S. J. Moore, Esq.	23	3
Toronto Savings & Loan Company Limited Leighton McCarthy, Esq., K.C. J. A. McLeod, Esq.	12	2
Trinidad Consolidated Telephones, Limited Honourable F. B. McCurdy, P.C. O. E. Smith, Esq.	6	2

DIRECTORS OF THE BANK OF TORONTO ON OTHER BOARDS (WHERE TWO OR MORE)

Companies having two or more of The Bank of Toronto Directors on their Boards	Number of Directors on said Companies' Boards	Number of Bank's Directors on said Boards
CANADA PERMANENT MORTGAGE CORPORATION	10	3
W. G. Gooderham, Esq.		
Col. A. E. Gooderham.		
William Stone, Esq.		
CANADA PERMANENT TRUST COMPANY	10	3
W. G. Gooderham, Esq.		
Col. A. E. Gooderham.		
William Stone, Esq.		
CROWN TRUST COMPANY	14	2
H. B. Henwood, Esq.		
W. I. Gear, Esq.		
MANUFACTURERS' LIFE INSURANCE COMPANY	9	3
W. G. Gooderham, Esq.		
H. B. Henwood, Esq.		
William Stone, Esq.		
THE TORONTO GENERAL TRUSTS CORPORATION	23	2
Archibald H. Campbell, Esq.		
Paul J. Myler, Esq.		

THE PROVINCIAL BANK OF CANADA

Companies having two or more of the Bank's Directors on their Board

Name of Company	Total Number of Directors	Provincial Bank Directors
ADMINISTRATION & TRUST SOCIETY	15	4
S. J. B. Rolland, Esq.		
Joseph Sirois, Esq.		
Alphonse Raymond, Esq.		
Charles A. Roy, Esq.		

DIRECTORS OF THE CANADIAN BANK OF COMMERCE ON OTHER BOARDS (WHERE TWO OR MORE)

Name of Company	Number of Directors of the Company	Number of the Bank's Directors on the Company's Board
BARCELONA TRACTION, LIGHT & POWER CO. LTD	15	4
Colonel Walter Gow.		
Miller Lash, Esq., K.C.		
The Rt. Hon. Sir Thomas White.		
Edward Rogers Wood, Esq.		
BEAUHARNOIS POWER CORPORATION, LIMITED, AND SUBSIDIARIES	11	2
Thomas Alexander Russell, Esq.		
Arthur Frank White, Esq.		
BORDEN'S LIMITED	14	2
Gordon Cameron Edwards, Esq.		
Hon. Donat Raymond.		
BRAZILIAN TRACTION, LIGHT & POWER CO. AND SUBSIDIARIES	15	6
Sir John Aird.		
Colonel Walter Gow.		
Miller Lash, Esq., K.C.		
Sir Alexander MacKenzie.		
The Rt. Hon. Sir Thomas White.		
Edward Rogers Wood, Esq.		
BRITISH AMERICA ASSURANCE COMPANY	16	5
Sir John Aird.		
Herbert Coplin Cox, Esq.		
Miller Lash, Esq., K.C.		
George Andrew Morrow, Esq.		
Edward Rogers Wood, Esq.		
CANADA CEMENT COMPANY, LIMITED	13	5
George William Allan, Esq.		
Gordon Cameron Edwards, Esq.		
Frank Percy Jones, Esq.		
Thomas Alexander Russell, Esq.		
Henry Jones Fuller, Esq.		
CANADA LIFE ASSURANCE COMPANY	15	4
Herbert Coplin Cox, Esq.		
John Stuart, Esq.		
The Rt. Hon. Sir Thomas White.		
Edward Rogers Wood, Esq.		
CANADIAN AIRWAYS, LIMITED	16	2
Gordon Cameron Edwards, Esq.		
James Armstrong Richardson, Esq.		
CANADIAN GENERAL ELECTRIC COMPANY, LIMITED	14	2
Herbert Coplin Cox, Esq.		
James Armstrong Richardson, Esq.		
CANADIAN INTERNATIONAL LIGHT & POWER INVESTMENT, LIMITED	....	2
Colonel Walter Gow.		
Miller Lash, Esq.		
CANADIAN-INTERNATIONAL PAPER COMPANY LIMITED	....	2
Hon. Donat Raymond.		
Thomas Alexander Russell, Esq.		
CANADIAN PACIFIC RAILWAY COMPANY	18	2
James Armstrong Richardson, Esq.		
The Rt. Hon. Lord Shaughnessy.		
CANADIAN VICKERS, LIMITED	11	2
James Armstrong Richardson, Esq.		
Thomas Alexander Russell, Esq.		
CENTRAL CANADA LOAN AND SAVINGS COMPANY	11	3
Herbert Coplin Cox, Esq.		
George Andrew Morrow, Esq.		
Edward Rogers Wood, Esq.		

DIRECTORS OF THE CANADIAN BANK OF COMMERCE ON OTHER BOARDS (WHERE TWO OR MORE)—*Continued*

Name of Company	Number of Directors of the Company	Number of the Bank's Directors on the Company's Board
CONFEDERATION LIFE ASSOCIATION	12	2
James Stanley McLean, Esq.		
Arthur Frank White, Esq.		
CONSUMERS GAS COMPANY	10	2
Alexander Rennie Auld, Esq.		
Thomas Henderson Wood, Esq.		
GREAT WEST LIFE ASSURANCE COMPANY	12	3
George William Allan, Esq., K.C.		
James Armstrong Richardson, Esq.		
William Pitt Riley, Esq.		
HAMILTON BRIDGE COMPANY, LIMITED	10	2
William Egerton Phin, Esq.		
James Armstrong Richardson, Esq.		
IMPERIAL LIFE ASSURANCE COMPANY	16	4
Sir John Aird.		
John Paris Bickell, Esq., K.C.		
George Andrew Morrow, Esq.		
Hon. Donat Raymond.		
INTERNATIONAL NICKEL COMPANY OF CANADA, LIMITED	25	2
John Paris Bickell, Esq., K.C.		
James Armstrong Richardson, Esq.		
LAKE OF THE WOODS MILLING COMPANY, LIMITED	12	3
George William Allan, Esq., K.C.		
Isaac Pitblado, Esq., K.C.		
The Right Hon. Lord Shaughnessy.		
MASSEY-HARRIS COMPANY, LIMITED	13	4
George William Allan, Esq., K.C.		
Frank Percy Jones, Esq.		
Thomas Alexander Russell, Esq.		
Edward Rogers Wood, Esq.		
MEXICAN LIGHT & POWER COMPANY, LIMITED	14	3
Colonel Walter Gow, Esq.		
Miller Lash, Esq., K.C.		
Edward Rogers Wood, Esq.		
MEXICAN TRAMWAYS COMPANY	16	4
Colonel Walter Gow.		
Miller Lash, Esq., K.C.		
The Rt. Hon. Sir Thomas White.		
Edward Rogers Wood, Esq.		
MUTUAL LIFE ASSURANCE COMPANY OF CANADA	16	2
Thomas Alexander Russell, Esq.		
Isaac Pitblado, Esq., K.C.		
NATIONAL BREWERIES, LIMITED	11	2
Frank Percy Jones, Esq.		
Honourable Donat Raymond.		
NATIONAL TRUST COMPANY	34	10
Sir John Aird.		
George William Allan, Esq., K.C.		
Herbert Coplin Cox, Esq.		
Sir Joseph Flavelle, Bart.		
Henry Jones Fuller, Esq.		
Miller Lash, Esq., K.C.		
George Andrew Morrow, Esq.		
James Armstrong Richardson, Esq.		
The Rt. Hon. Sir Thomas White.		
Edward Rogers Wood, Esq.		

DIRECTORS OF THE CANADIAN BANK OF COMMERCE ON OTHER BOARDS (WHERE TWO OR MORE)—*Concluded*

Name of Company	Number of Directors of the Company	Number of the Bank's Directors on the Company's Board
PROVINCIAL PAPER, LIMITED Arthur Frank White, Esq. Edward Rogers Wood, Esq.	9	2
REMINGTON RAND, INC Charles William Colby, Esq. Henry Jones Fuller, Esq.	25	2
TORONTO GENERAL TRUSTS CORPORATION Isaac Pitblado, Esq., K.C. William Pitt Riley, Esq. Thomas Alexander Russell, Esq.	23	3
TORONTO MORTGAGE COMPANY Alexander Mainwaring Morris Kirkpatrick, Esq. Arthur Frank White, Esq. Thomas Henderson Wood, Esq.	7	3
TORONTO SAVINGS AND LOAN COMPANY, LIMITED Herbert Coplin Cox, Esq. Sydney Henry Logan, Esq. George Andrew Morrow, Esq. Edward Rogers Wood, Esq.	12	4
THE TUCKETT TOBACCO COMPANY, LIMITED, AND SUBSIDIARIES Howard Sudlow Andrews, Esq. William Egerton Phin, Esq.	12	2
WESTERN ASSURANCE COMPANY Sir John Aird. Herbert Coplin Cox, Esq. Miller Lash, Esq., K.C. George Andrew Morrow, Esq. Edward Rogers Wood, Esq.	17	5

ROYAL BANK OF CANADA

Corporation	Total Number of Directors	Royal Bank Directors	Name
Andian National	7	2	Sir Herbert S. Holt. G. Harrison Smith.
Beauharnois Power Corporation Ltd	11	2	M. W. Wilson. J. S. Norris.
Bell Telephone Company	15	2	P. F. Sise. W. F. Angus.
British Columbia Power Corporation	15	2	Sir Herbert S. Holt. W. J. Blake Wilson.
British Columbia Pulp and Paper Company	8	2	W. J. Blake Wilson. W. H. Malkin.
Brandram Henderson Limited	11	2	Hon. William A. Black. G. MacGregor Mitchell.

THE ROYAL BANK OF CANADA—*Continued*

Corporation	Total Number of Directors	Royal Bank Directors	Name
Canadian Airways Company	16	3	Sir Herbert S. Holt. W. J. Blake Wilson. M. W. Wilson.
Canadian Bronze Company	9	2	Sir Herbert S. Holt. A. E. Dyment.
Canadian General Electric Company	14	5	Sir Herbert S. Holt. Julian C. Smith. A. E. Dyment. Stephen Haas. W. J. Blake Wilson.
Canadian Light and Power Company	9	2	Julian C. Smith. J. S. Norris.
Canadian Pacific Railway	18	2	Sir Herbert S. Holt. W. J. Blake Wilson.
Canada Steamship Lines Ltd	14	2	Hon. A. J. Brown, K.C. C. B. McNaught.
Coalmont Colleries Limited	....	2	W. J. Blake Wilson. W. H. Malkin.
Consolidated Mining & Smelting Company	13	2	Sir Herbert S. Holt. W. J. Blake Wilson.
Dominion Bridge Company	18	7	Sir Herbert S. Holt. Hon. A. J. Brown, K.C. G. H. Duggan. Julian C. Smith. W. F. Angus. C. B. McNaught. W. J. Blake Wilson.
Dominion Engineering Works, Ltd	13	6	Sir Herbert S. Holt. Hon. A. J. Brown, K.C. G. H. Duggan. Julian C. Smith. W. F. Angus. P. F. Sise.
Dominion Coal and Steel Corporation	16	3	Sir Herbert S. Holt. G. H. Duggan. C. B. McNaught.
Eastern Canada Steel and Iron Works	....	2	G. H. Duggan. W. F. Angus.
The Eastern Trust Company	23	2	Hon. William A. Black. J. McG. Stewart, K.C.
Fairchild Aircraft Limited	....	2	G. H. Duggan. Julian C. Smith.
Foundation Company of Canada Limited	10	3	Hon. A. J. Brown, K.C. W. F. Angus. C. B. McNaught.
Great West Life Assurance Company	12	2	W. H. McWilliams. R. T. Riley.
Hillcrest Colleries Limited	9	2	Sir Herbert S. Holt. G. H. Duggan.
Holt Renfrew and Company	9	3	Sir Herbert S. Holt. Hon. A. J. Brown, K.C. W. H. McWilliams.
Home Oil Company Limited	17	2	W. J. Blake Wilson. W. H. Malkin.

THE ROYAL BANK OF CANADA—*Concluded*

Corporation	Total Number of Directors	Royal Bank Directors	Name
Howard Smith Paper Mills Limited	14	2	Sir Herbert S. Holt. C. B. McNaught.
Hydro Electric Bond and Share	6	2	Sir Herbert S. Holt. J. S. Norris.
Montreal Light Heat and Power Consolidated	12	3	Sir Herbert S. Holt. Julian C. Smith. J. S. Norris.
Montreat Trust Company	24	11	Sir Herbert S. Holt. Hon. A. J. Brown, K.C. M. W. Wilson. G. H. Duggan. Robert Adair. Julian C. Smith. J. S. Norris. W. F. Angus. P. F. Sise. A. E. Dyment. C. B. McNaught.
National Trust Company	34	3	W. H. McWilliams. A. McTavish Campbell. C. S. Wilcox.
Northern Electric Company	....	3	Hon. A. J. Brown, K.C. W. F. Angus. P. F. Sise.
Northern Mortgage Company	10	3	R. T. Riley. Capt. Wm. Robinson. W. H. Malkin.
Northern Trusts Company, Winnipeg	15	2	R. T. Riley. W. H. Malkin.
Nova Scotia Light and Power Co	9	2	G. MacGregor Mitchell. J. McG. Stewart, K.C.
Quebec Power Company	17	2	Julian C. Smith. John T. Ross.
Shawinigan Water and Power Company	14	3	Sir Herbert S. Holt. Julian C. Smith. G. H. Duggan.
Steel Company of Canada Limited	11	3	Hon. A. J. Brown, K.C. G. H. Duggan. C. S. Wilcox.
Sun Life Assurance Company	17	3	Sir Herbert S. Holt. Robert Adair. C. B. McNaught.
Tuckett Tobacco Company	12	2	Sir Herbert S. Holt. C. S. Wilcox.
United Securities Limited	8	2	Julian C. Smith. J. S. Norris.

THE DOMINION BANK

Name of Company	Dominion Bank Directors on Board	Total Number of Directors on Board
Canada Northwest Land Co. Ltd	A. W. Austin A. C. Matthews F. G. Osler	9
Canadian Surety Company	A. C. Matthews F. Gordon Osler	10
Consolidated Mining & Smelting Co	R. S. McLaughlin F. G. Osler	14
Consumers' Gas Co. of Toronto	A. W. Austin F. G. Osler	10
Toronto General Trusts Corporation	A. C. Matthews W. W. Near H. H. Williams	23
Winnipeg Western Land Co. Ltd	A. C. Matthews F. Gordon Osler	7

DIRECTORS OF BANQUE CANADIENNE NATIONALE ON OTHER BOARDS (WHERE TWO OR MORE)

Name of Company	Total Number of Directors of the Company	Number of Bank's Directors on the Board
LA CAISSE D'ECONOMIE DE NOTRE DAME DE QUEBEC A. N. Drolet, Esq. J. H. Fortier, Esq. Sir George Garneau.	10	3
PROVINCIAL TRANSPORT COMPANY J. H. Fortier, Esq. Beaudry Leman, Esq.	9	2
QUEBEC POWER COMPANY J. H. Fortier, Esq. Hon. D. O. L'Esperance.	....	2
SHAWINIGAN WATER & POWER COMPANY Beaudry Leman, Esq. J. H. Fortier, Esq.	14	
TRUST GENERAL DU CANADA A. N. Drolet, Esq. Sir George Garneau. Chas. Laurendeau, Esq., K.C. Beaudry Leman, Esq. Hon. D. O. L'Esperance. Hon. J. M. Wilson. L. G. Ryan, Esq.	18	7

DIRECTORS OF IMPERIAL BANK OF CANADA ON OTHER BOARDS
(WHERE TWO OR MORE)

Name of Company	Number of Directors of Company	Number of the Bank's Directors on the Company's Board
Confederation Life Association	12	3
W. C. Laidlaw, Esq. Colonel J. F. Michie. R. S. Waldie, Esq.		
General Accident Assurance Company of Canada	....	3
Colonel J. F. Michie. J. A. Northway, Esq. R. S. Waldie, Esq.		
Maple Leaf Milling Company, Limited	....	2
R. S. Waldie, Esq. H. E. Sellers, Esq.		
Securities Holding Corporation, Limited	....	2
G. C. Heintzman, Esq. J. W. Hobbs, Esq.		
Scottish Canadian Assurance Corporation	....	2
Colonel J. F. Michie. R. S. Waldie, Esq.		
Toronto General Trusts Corporation	23	2
J. F. Michie, Esq. A. E. Phipps, Esq.		

BARCLAYS BANK (CANADA)

List of Companies having two or more of the Bank's Directors on their Boards

Name of Company—		Bank's Directors on Board—
Sun Life Assurance Company of Canada. Number of Directors on Board......	17	Mr. A. B. Purvis. Hon. L. A. Taschereau, LL.D., K.C.
Canadian Investment Fund Limited. Number of Directors on Board...	12	Right Hon. Sir Robert L. Borden, G.C.M.G., P.C., LL.D., K.C. Mr. A. B. Purvis. Hon. L. A. Taschereau, LL.D., K.C.
Liverpool & London & Globe Insurance Co., Ltd. Number of Directors on Board..	5	Mr. A. B. Purvis. Hon. L. A. Taschereau, LL.D., K.C.
Barclays Trust Company of Canada. Number of Directors on Board..	5	Right Hon. Sir Robert L. Borden, G.C.M.G., P.C., LL.D., K.C. Mr. A. B. Purvis. Mr. A. A. Magee. Mr. H. P. Alton. Mr. J. S. Crossley.

APPENDIX "J"

Exhibit 18

P.C. 2238

Certified to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 12th September, 1931.

The Committee of the Privy Council have had before them a Report, dated 11th September, 1931, from the Minister of Finance, recommending that, in pursuance of the Unemployment and Farm Relief Act, 1931, and of an undertaking on behalf of the Government, made before the Session of Parliament at which the said Act was passed, to implement by legislation the recommendation hereinafter set out, the Governor in Council guarantee repayment to the chartered banks hereinafter mentioned:

The Bank of Montreal,
The Bank of Nova Scotia,
The Bank of Toronto,
The Canadian Bank of Commerce,
The Royal Bank of Canada,
The Dominion Bank,
The Imperial Bank of Canada,

of the amounts of money advanced by them to the Canadian Co-operative Wheat Producers Limited, hereinafter called "Wheat Producers," and interest thereon until repayment as agreed between the said banks and Wheat Producers in connection with and incidental to the marketing of the wheat and other grains grown in the Provinces of Manitoba, Saskatchewan, and Alberta in the year 1930 and delivered to or in process of delivery to Wheat Producers, and including advances for purchases of wheat or other grains deemed necessary by Wheat Producers to secure the advantageous sale of such grains already delivered to or to be delivered to Producers.

The Minister further recommends that such guarantee shall become operative and payment thereunder, out of the Consolidated Revenue Fund, of the respective balances, if any, then owing, shall be made after Wheat Producers has sold and realized upon all or practically all such wheat and other grains in its possession or control, and application of the amounts realized, less expenses, has been made against such advances and interest, and thereupon the Governor in Council, on the recommendation of the Minister of Finance, shall determine the date at which payments are to be made in pursuance of this guarantee.

The Committee concur in the foregoing recommendations and submit the same for Your Excellency's approval.

E. J. LEMAIRE,
Clerk of the Privy Council.

APPENDIX "K"

Exhibit 19

P.C. 2239

Certified to be a true copy of a Minute of a Meeting of the Committee of the Committee of the Privy Council, approved by His Excellency the Governor General on the 12th September, 1931.

The Committee of the Privy Council have had before them a report, dated 11th September, 1931, from the Minister of Finance, submitting that the economic depression prevalent in Canada, in common with all other countries with which Canada has business relations, is intensified in the Provinces of Manitoba, Saskatchewan and Alberta by a partial crop failure, and the difficulty of finding a market for the exportable surplus as rapidly as deliveries are made by the farmer of wheat and other grains grown in the year 1931 in those Provinces is apparent. There is need, therefore, if unemployment and distress are not to grow greater, not only in those Provinces but elsewhere in Canada, of making immediate provision to enable the farmers in those Provinces to sell at market rates or secure reasonable advances upon delivery of their wheat and other grains to the marketing agencies possessing the facilities for marketing the crop. These marketing agencies are—

Manitoba Wheat Pool, with its subsidiary Manitoba Pool Elevators, Limited.

Saskatchewan Co-operative Wheat Producers, Limited with its subsidiary Saskatchewan Pool Elevators, Limited.

Alberta Wheat Pool, with its subsidiary Alberta Pool Elevators, Limited.

but they, while possessed of a certain amount of cash, do not possess adequate financial resources warranting banking advances that will probably be necessary. Representations have been made by the respective Provincial Governments, already burdened by obligations arising out of the marketing of the 1929 crop, for assistance from the Government of Canada.

The Committee, therefore, on the recommendation of the Minister of Finance, advise that repayment of advances made by any chartered bank to any of these Marketing Agencies, and interest thereon as may be agreed upon between the banks and such Marketing Agencies, in connection with and for the purpose of marketing said wheat and other grains, be guaranteed by the Governor in Council under the authority of the Unemployment and Farm Relief Act, 1931, under the conditions and to the extent hereinafter mentioned, to wit:

(a) That the Manitoba Pool Elevators, Limited, Saskatchewan Pool Elevators, Limited, and Alberta Pool Elevators, Limited, shall each have at the outset of the marketing season of 1931 as working capital cash equivalent to twenty per centum of the respective bank credits first applied for and granted to them respectively and to Manitoba Wheat Pool, Saskatchewan Co-operative Wheat Producers, Limited, and Alberta Wheat Pool, respectively, but such percentage of cash requirement shall not apply to additional credits which may be granted later in the marketing season:

(b) The certified statement of Messrs. Price, Waterhouse and Company, nominated by the Minister of Finance as auditors for the purpose, showing the amount of such working capital, shall be conclusive as to the amount of such cash for all purposes of this guarantee:

(*c*) That in the case of wheat delivered for sale upon the Pool plan the initial payment on such wheat to the farmer be on the basis of 55 cents per bushel No. 1, Northern, Fort William, or such other basis as may be approved from time to time by the Minister of Finance, and on other grains proportionately, the relative market prices of wheat and of such other grains being the basis:

(*d*) That security upon the wheat and other grains be taken by the banks under the provisions of the Bank Act:

(*e*) The extent of the guarantee shall be limited to the maintenance at all times of a fifteen per centum margin in the securities so taken.

When, in the usual course of accounting and auditing from time to time, it is ascertained that the margin of fifteen per centum is impaired, the liability under the guarantee of the Government to the several banks shall accrue.

The Committee, further advise that in the event of impairment as above set forth further advances under this guarantee may thereafter be made by the banks, the total not to exceed the respective credits originally established by the banks for the respective Marketing Agencies unless and until the Minister of Finance makes further arrangements with the banks for additional credits if such be required.

The Committee further advise that payment under this guarantee shall be made out of the Consolidated Revenue Fund for the respective balances, if any are owing after the Marketing Agencies have sold and realized upon all or practically all such wheat and other grains in their possession or control and application of the amounts realized, less expenses, has been made against bank advances and interest, and thereupon the Governor in Council, on the recommendation of the Minister of Finance, shall determine the date at which payments are to be made in pursuance of this guarantee.

(Sgd.) E. J. LEMAIRE,
Clerk of the Privy Council.

APPENDIX "L"

Exhibit 20

P.C. 2403

Certified to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by the Deputy of His Excellency the Governor General on the 28th September, 1931.

The Committee of the Privy Council have had before them a Report, dated 26th September, 1931, from the Minister of Finance, submitting that when Order in Council P.C. 2239, was passed on the 12th September, 1931, to facilitate, as therein set out, the marketing of wheat and other grains grown in the Provinces of Manitoba, Saskatchewan and Alberta in 1931, the information available as to the financial position of the Marketing Agencies therein mentioned to wit—

Manitoba Wheat Pool, with its subsidiary Manitoba Pool Elevators, Limited,

Saskatchewan Co-Operative Wheat Producers, Limited, with its subsidiary Saskatchewan Pool Elevators, Limited,

Alberta Wheat Pool, with its subsidiary Alberta Pool Elevators, Limited,

was to the effect that at the outset of the marketing season of 1931 the working capital of these Marketing Agencies was in cash.

The Minister states that Messrs. Price, Waterhouse and Company, nominated by him to certify in pursuance of the said Order, report that the working capital of such Marketing Agencies at the time aforesaid was partly in cash, partly grain and receivables.

The Minister, therefore, for the reasons set out in said Order in Council, and to enable the farmers in these Provinces to sell at market rates or to secure reasonable advances upon delivery of their wheat and other grains to the said Marketing Agencies which possess the facilities necessary for marketing the crop, recommends that repayment of advances made by any chartered bank to any of these Marketing Agencies, and interest thereon as may be agreed upon between the banks and such Marketing Agencies in connection with and for the purpose of marketing said wheat and other grains, be guaranteed by the Governor in Council under the authority of the Unemployment and Farm Relief Act, 1931, under the conditions and to the extent hereinafter mentioned, to wit—

(*a*) That the Manitoba Pool Elevators, Limited, Saskatchewan Pool Elevators, Limited and Alberta Pool Elevators, Limited, shall each have at the outset of the marketing season of 1931 working capital equivalent to twenty per centum of the respective bank credits first applied for and granted to them respectively and to Manitoba Wheat Pool, Saskatchewan Co-Operative Wheat Producers, Limited, and Alberta Wheat Pool, respectively, but such percentage of working capital requirement shall not apply to additional credits which may be granted later in the marketing season;

(*b*) The certified statement of Messrs. Price, Waterhouse and Company, nominated by the Minister of Finance as auditors for the purpose, showing the amount of such working capital, shall be conclusive as to the amount thereof for all purposes of this guarantee;

(*c*) That in the case of wheat delivered for sale upon the Pool plan the initial payment on such wheat to the farmer be on the basis of thirty-five cents per bushel No. 1, Northern Fort William, or such other basis as may be approved from time to time by the Minister of Finance and on other grains proportionately, the relative market prices of wheat and of such other grains being the basis;

(*d*) That security upon the wheat and other grains be taken by the banks under the provisions of the Bank Act;

(*e*) The extent of the guarantee shall be limited to the maintenance at all times of a fifteen per centum margin in the securities so taken.

When, in the usual course of accounting and auditing, from time to time, it is ascertained that the margin of fifteen per centum is impaired, the liability under the guarantee of the Government to the several banks shall accrue.

The Minister recommends that in the event of impairment as above set forth further advances under this guarantee may thereafter be made by the banks, the total loans outstanding at any one time not to exceed the respective credits originally established by the banks for the respective Marketing Agencies, but loans in excess of the credits originally established shall not be made unless and until the Minister of Finance makes further arrangements with the banks for additional credits if such be required.

The Minister further recommends that payment under this guarantee shall be made out of the Consolidated Revenue Fund for the respective balances, if any are owing, after the Marketing Agencies have sold and realized upon all, or practically all, of such wheat and other grains in their possession or control, and application of the amounts realized less expenses, has been made against such bank advances and interest, and thereupon the Governor in Council on the recommendation of the Minister of Finance, shall determine the date at which payments are to be made in pursuance of this guarantee.

The Committee concur in the foregoing recommendations and submit the same for approval.

(Sgd.) E. J. LEMAIRE,
Clerk of the Privy Council.

APPENDIX "M"

Exhibit 21

P.C. 2977

Certified to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 30th November, 1931.

The Committe of the Privy Council have had before them a Report, dated 26th November, 1931, from the Acting Minister of Finance, directing attention to Order in Council P.C. 2403, dated the 28th September, 1931, pursuant to which, under the authority of The Unemployment and Farm Relief Act, 1931, certain guarantees were authorized, based on the financial position of the Marketing Agencies therein mentioned, to wit:

Manitoba Wheat Pool, with its subsidiary
Manitoba Pool Elevators, Limited,
Saskatchewan Co-operative Wheat Producers, Limited,
with its subsidiary
Saskatchewan Pool Elevators, Limited,
Alberta Wheat Pool, with its subsidiary
Alberta Pool Elevators, Limited.

These guarantees were authorized to enable the farmers in the Provinces of Manitoba, Saskatchewan, and Alberta to sell at market rates, or to secure reasonable advances, on delivery of their wheat and other grains grown in these Provinces in 1931, and to make provision for the credit facilities, under existing abnormal financial conditions, necessary to effect these purposes.

These guarantees, in favour of any chartered bank making advances to the Marketing Agencies, were conditioned upon the possession by the latter of working capital at the outset of the 1931 marketing season equivalent to one-fifth of the credits to be established.

The report received by the Minister of Finance from Messrs. Price, Waterhouse & Company, auditors nominated for the purpose, does not disclose a satisfactory working capital position at the outset of the marketing season of these Marketing Agencies.

Inasmuch, therefore, as there was a misunderstanding of the working capital position of these Marketing Agencies when said Order in Council was passed, and inasmuch as it is of importance, not only to the farmers who are marketing grain in the three Provinces mentioned, but to the whole of Canada, that there be no interruption in the course of marketing of these grains now in progress, the Minister recommends that, under the authority of the said The Unemployment and Farm Relief Act, 1931, repayment of advances made and to be made by any chartered bank to any of these Marketing Agencies, and interest thereon as may be agreed upon between the banks and such Marketing Agencies, in connection with and for the purpose of marketing said wheat and other grains, be guaranteed by the Governor General in Council, under the authority of the said Act, to the extent and subject to the conditions hereinafter mentioned, to wit:

(a) That the total of such advances outstanding at any one time shall not exceed the amounts following, to
Manitoba Wheat Pool, with its subsidiary

Manitoba Pool Elevators, Limited, $1,250,000.
Saskatchewan Co-operative Wheat Producers, Limited, with its subsidiary
Saskatchewan Pool Elevators, Limited, $12,000,000.
Alberta Wheat Pool, with its subsidiary
Alberta Pool Elevators, Limited, $7,500,000.

(*b*) That in the case of wheat delivered for sale upon the pool plan the initial payment on such wheat to the farmer be on the basis of thirty-five cents per bushel No. 1 Northern, Fort William, or such other basis as may be approved from time to time by the Minister of Finance, and on other grains proportionately, the relative market prices of wheat and of such other grains being the basis;

(*c*) That security upon the wheat and other grains be taken by the banks under the provisions of the Bank Act;

(*d*) The extent of the guarantee shall be limited to the maintenance at all times of a fifteen per centum margin in the securities so taken.

When, in the usual course of accounting and auditing, from time to time, it is ascertained that the margin of fifteen per centum is impaired, the liability under the guarantee of the Government to the several banks shall accrue.

The Minister also recommends that in the event of impairment as above set forth further advances under this guarantee may thereafter be made by the banks, the total loans outstanding at any one time not to exceed the respective amounts above set out.

The Minister further recommends that payment under this guarantee shall be made out of the Consolidated Revenue Fund for the respective balances, if any are owing, after the Marketing Agencies have sold and realized upon all, or practically all, of such wheat and other grains in their possession or control, and application of the amounts realized less expenses, has been made against such bank advances and interest, and thereupon the Governor in Council on the recommendation of the Minister of Finance, shall determine the date at which payments are to be made in pursuance of this guarantee.

The Committee concur in the foregoing recommendations and submit the same for approval.

(Sgd.) E. J. LEMAIRE,
Clerk of the Privy Council.

APPENDIX "N"

Exhibit 22

P.C. 1576

Certified to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 11th July, 1932.

The Committee of the Privy Council have had before them a Report, dated 8th July, 1932, from the Right Honourable the Prime Minister, for the Minister of Finance, submitting that he has had under consideration Order in Council of 12th September, 1931—P.C. 2238—in pursuance of which, under the authority of The Unemployment and Farm Relief Act, 1931, the Governor in Council guaranteed repayment to the chartered banks hereinafter mentioned:

Bank of Montreal
The Bank of Nova Scotia
The Bank of Toronto
The Canadian Bank of Commerce
The Royal Bank of Canada
The Dominion Bank
Imperial Bank of Canada

of the amounts of money advanced by them to the Canadian Co-operative Wheat Producers, Limited, hereinafter called " Wheat Producers ", and interest thereon until repayment as agreed between the said banks and Wheat Producers, in connection with and incidental to the marketing of the wheat and other grains grown in the Provinces of Manitoba, Saskatchewan and Alberta, in the year 1930, and delivered to or in process of delivery to Wheat Producers, and including advances for purchases of wheat or other grains deemed necessary by Wheat Producers to secure the advantageous sale of such grains then delivered to or to be delivered to Wheat Producers.

The Order in Council further provided that such guarantee should become operative and payment thereunder, out of Consolidated Revenue Fund, of the respective balances, if any, then owing should be made after Wheat Producers had sold and realized upon all or practically all of such wheat and other grains in its possession or control, and had made application of the amounts realized, less expenses, against such advances and interest.

The Minister is advised that a portion of the wheat and other grains in the possession or control of Wheat Producers as contemplated by said Order in Council, had not on the 30th day of April, 1932, at which date the powers created by the said Unemployment and Farm Relief Act, 1931, expired, been sold or realized upon and it has since been and may hereafter be deemed necessary by Wheat Producers, in order to secure the advantageous sale or disposition of the grains purchased or under its control, to procure, in addition to advances already made, further advances from the said banks to protect purchases of wheat or other grains already made or to be made.

The Minister, therefore, having regard to the undertakings entered into in the Order in Council referred to, and under the authority of the Relief Act, 1932, recommends that the Governor in Council guarantee to the said banks payment by the Canadian Co-operative Wheat Producers Limited of all such

advances made and to be made, and interest thereon as agreed between the said banks and Wheat Producers until repayment; such guarantee shall become operative and payment thereunder, out of Consolidated Revenue Fund, of the respective balances, if any, then owing shall be made after Wheat Producers have sold or realized upon all or practically all of such wheat and other grains in its possession or control, and application of the amounts realized less expenses has been made against such advances and interest, and upon failure of Wheat Producers to make forthwith payment of such balances to said banks, thereupon the Governor in Council, on the recommendation of the Minister of Finance, shall determine the date at which payments out of Consolidated Revenue Fund are to be made to said banks in pursuance of this guarantee.

The Committee concur in the foregoing and submit the same for Your Excellency's approval.

(Signed) E. J. LEMAIRE,
Clerk of the Privy Council.

APPENDIX "O"

Exhibit 23

P.C. 2077

Privy Council,
Canada.

Certified to be a true copy of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 20th September 1932.

The Committee of the Privy Council have had before them a report, dated 17th September, 1932, from the Minister of Finance, submitting as follows:

The Economic depression prevalent in Canada, in common with all other countries with which Canada has business relations, still continues, and is particularly severe in the Provinces of Manitoba, Saskatchewan and Alberta, because these Provinces are largely dependent, under present unfavourable price conditions, upon the marketing of their grain crops in order to meet current obligations and to provide means for carrying the population until the next season arrives.

The marked variations in grain prices in the immediate past, and the uncertainty of future prices in the wheat markets of leading importing countries, makes it difficult, if not impossible, with an reasonable degree of safety, for banks to afford credit facilities to grain marketing agencies on the basis of current values of grain. On the other hand, the farmers of these Provinces greatly need to sell their wheat and other grains, as soon as deliveries are possible, for cash at *present prices*, or to receive reasonable advances on deliveries made on the pool plan. If credit facilities are not available to them, the farmers' demands for relief from provincial sources will necessarily become insistent, and these Provinces, already burdened financially with the consequences of the depression, have so represented the situation to the Government. Should there be any interruption in credit facilities for marketing grains grown in these Provinces in 1932, the credit and finacial position of these Provinces will be adversely affected, and it is with a view to protect the credit and financial position of these Provinces that the recommendation hereinafter set forth is made.

There is need, therefore, of making immediate provision for the necessary credit facilities to enable the farmers in the Provinces named to sell at market rates their wheat and other grains grown in 1932 or to secure reasonable advances upon delivery of such wheat and other grains, to the three marketing agencies possessing the facilities for handling the crop.

These agencies are:—

Manitoba Wheat Pool, with its subsidiary, Manitoba Pool Elevators, Limited.

Saskatchewan Co-Operative Wheat Producers, Limited, with its subsidiary, Saskatchewan Pool Elevators, Limited.

Alberta Wheat Pool, with its subsidiary, Alberta Pool Elevators, Ltd.

hereinafter referred to as the "Marketing Agencies", and while possessed of a certain amount of working capital, the Marketing Agencies have not adequate financial resources to warrant the banking advances that will probably be necessary. Representations have been made by the Governments of these Provinces

as already mentioned, and assistance from the Government of Canada by way of a Dominion guarantee to chartered banks making advances to the marketing agencies that such advances will be repaid, has been sought by these Governments.

The Minister, therefore, in view of the foregoing, recommends that under the authority of the Relief Act, 1932, the Governor General in Council guarantee to the chartered banks, payment by each of the Marketing Agencies of the advances made, or to be made, by any chartered bank to any of these Marketing Agencies, in connection with and for the purpose of marketing wheat and other grains grown in these Provinces in 1932, and of the balances of any such advances as may be owing after crediting repayments from time to time, together with interest on such advances and balances, until payment in full is made, at the rate agreed upon between such banks and the Marketing Agencies—the guarantee to be subject to the terms and conditions following: to wit

(*a*) The total of such advances outstanding at any one time shall not exceed in the case of a Marketing Agency, an amount five times the working capital which such Marketing Agency had at the outset of the marketing season of 1932, so that such working capital shall be not less than twenty per centum of such maximum outstanding advances;

(*b*) The certified statement of Messrs. Price, Waterhouse and Company, nominated by the Minister of Finance as auditors, for the purpose, showing the amount of such working capital, shall be conclusive to the amount of such working capital for all purposes of this guarantee;

(*c*) In the case of wheat delivered for sale upon the Pool plan the initial payment on such wheat to the farmer shall be on the basis of thirty-five cents per bushel No. 1, Northern, Fort William, or such other basis as may be approved from time to time by the Minister of Finance, and on other grains proportionately, the relative market prices of wheat and of such other grains being the basis;

(*d*) Security upon the wheat and other grains shall be taken by the banks under the provisions of the Bank Act;

(*e*) The extent of the guarantee shall be limited to the maintenance at all times of a fifteen per centum margin in the securities so taken.

Whenever, in the usual course of accounting and auditing, it is ascertained from time to time that the margin of fifteen per centum is impaired, the liability under the guarantee of the Government to the several banks shall accrue.

The Minister, in view of the foregoing, also recommends that in the event of impairment as above set forth, further advances, to which this guarantee will be applicable, may thereafter be made by the banks, but the total loans outstanding at any time must not exceed five times the working capital at the outset of the marketing season of the Marketing Agency concerned;

That notwithstanding anything hereinbefore contained, and whether there has or has not been impairment as above set forth, if, because of the large volume of the crop and of possible delay in export marketing, additional advances are necessary in order that farmers may be able to make deliveries of grain and obtain payment therefor or advances thereon without interruption, additional advances from the banks, may, from time to time, be made to the respective marketing Agencies, to which the guarantee herein set out shall apply, provided such additional advances have been authorized by Order in Council; and

That payment under this guarantee shall be made out of the Consolidated Revenue Fund of the respective balances (if any are owing) and interest thereon as aforesaid, after the Marketing Agencies have sold and realized upon all or prac-

tically all such wheat and other grains in their possession or control, and application of the amounts realized, less expenses, has been made against bank advances and interest, and thereupon the Governor General in Council, upon the recommendation of the Minister of Finance, shall determine the date on which payments are to be made to such banks out of the Consolidated Revenue Fund in pursuance of this guarantee.

The Committee concur in the foregoing and submit the same for Your Excellency's approval.

(Signed) E. J. LEMAIRE,
Clerk of the Privy Council.

APPENDIX P

Exhibit 24

Copy

P.C. 508

Certified to be a true copy of a Minutes of a Meeting of the Committee of the Privy Council approved by His Excellency the Governor General on the 20th March, 1933.

The Committee of the Privy Council have had before them a report, dated 17th March, 1933, from the Minister of Finance, submitting as follows:

Attention is directed to Privy Council Order No. 2077 assented to on the 20th September, 1932, passed under the authority of the Relief Act, 1932, under which, because of the economic depression prevalent in Canada and for the reasons therein set out, a guarantee was given to the chartered banks in respect of advances made or to be made by any chartered bank to—

Manitoba Wheat Pool with its subsidiary Manitoba Pool Elevators, Limited,

Saskatchewan Co-operative Wheat Producers Limited, with its subsidiary, Saskatchewan Pool Elevators, Limited.

Alberta Wheat Pool, with its subsidiary, Alberta Pool Elevators, Limited,

Or any of whom (hereinafter referred to as Marketing Agencies), in connection with and for the purpose of marketing wheat and other grains grown in the provinces of Manitoba, Saskatchewan and Alberta in 1932.

Two classes of transactions in respect thereof were guaranteed; first, advances to enable the farmers in those provinces to sell such wheat and other grains at market rates to the Marketing Agencies; or second, to secure reasonable advances through such agencies upon delivery of such wheat and other grains upon the Pool Plan, the Pool Plan advance as fixed by Order in Council being 35 cents per bushel No. 1 Northern, Fort William, or such other basis as might be approved from time to time by the Minister of Finance. Approximately thirteen million bushels of wheat have been delivered on the Pool Plan up to the present time. Prices so far received by the Marketing Agencies for wheat of the 1932 crop would probably not justify a present increase by the Minister of Finance in the basis of 35 cents per bushel.

Farmers who have been advanced on the basis of 35 cents per bushel on the Pool Plan are in need of money to assist in putting in the 1933 crop, and a payment forthwith of 5 cents per bushel in respect of all such wheat delivered or in course of delivery is urgently required to this end.

For these reasons and the reasons set out in said Order in Council, and in order that farmers resident in those provinces may be able to make more certain of production in the 1933 crop season, thereby assisting the financial and credit positions of those provinces, the Minister recommends that under the authority of the Relief Act, 1932, Your Excellency in Council guarantee, to the chartered banks, payment by each of the Marketing Agencies of the advances made, or to be made, of 5 cents per bushel in respect of all such wheat delivered

or that may be delivered before the expiry of said Act, together with interest thereon until payment in full is made, at such rate as may be agreed upon by the Marketing Agencies and such banks.

That this guarantee be in addition to any obligation that may become due and payable under the guarantee provided in said Order in Council No. 2077, of the 20th September, 1932; and

That after the Marketing Agencies have sold and realized upon all or practically all such wheat and other grains in their possession or control, as set out in said Order in Council No. 2077, and the application of the amount realized, less expenses, has been made against bank advances and interest in pursuance of the said Order in Council, the balance, if any, arising from such sale, after such deductions have been made, shall be applied in payment of the obligations of the Marketing Agencies to the banks making advances guaranteed under any Order based on this Report, and if there should be no such balance or an insufficient balance, then the amount due or remaining due in respect of the advances made under such Order, and the interest thereof, shall become due and payable to such banks out of the Consolidated Revenue Fund, and thereupon the Governor General in Council, upon the recommendation of the Minister of Finance, shall determine the date on which payment thereof out of the Consolidated Revenue Fund is to be made.

The Committee concur in the foregoing recommendation and submit the same for approval.

(Sgd.) E. J. LEMAIRE,
Clerk of the Privy Council.

APPENDIX "Q"

Exhibit 25

P.C. 685

Certified to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 12th April, 1933.

The Committee of the Privy Council have had before them a report, dated 11th April, 1933, from the Minister of Finance, stating that he has had under consideration Privy Council Order No. 1576, approved by His Excellency the Governor General, on the 11th July, 1932, whereby the Governor in Council guaranteed to the chartered banks hereinafter mentioned:

Bank of Montreal,
The Bank of Nova Scotia,
The Bank of Toronto,
The Canadian Bank of Commerce,
The Royal Bank of Canada,
The Dominion Bank,
Imperial Bank of Canada,

payment by the Canadian Co-operative Wheat Producers, Limited, hereinafter called "Wheat Producers," of all advances made or to be made by said banks to Wheat Producers and interest thereon as agreed between the said banks and Wheat Producers until repayment, as in said Order in Council provided.

On the 31st day of March, 1933, the powers created by the Relief Act, 1932, expired. The Minister is advised that at such date Wheat Producers had in its possession wheat acquired in connection with and pursuant to said Order in Council, and that contracts for the purchase and future delivery of wheat and other grains had previously been entered into by Wheat Producers, as contemplated by and in pursuance of said Order in Council, in respect of and for the purposes of which advances were made under said Order in Council by said banks to Wheat Producers, and that further advances have been and may be deemed necessary by Wheat Producers after said thirty-first day of March in respect of such contracts or in respect of contracts in substitution for or in addition to existing contracts for delivery of wheat and other grains, in order to secure the advantageous sale or disposal of such grains and contracts.

The Minister, therefore, recommends that payment of the amounts of money advanced to Wheat Producers and interest thereon until repayment as agreed upon between the said banks and Wheat Producers, outstanding at the 31st day of March, 1933, and that payment of the amounts of such subsequent advances contemplated by this Order in Council as have been or may be deemed necessary by Wheat Producers to secure the advantageous sale or disposal of all grains and contracts including grain to be delivered to Wheat Producers thereunder and interest thereon until repayment, be guaranteed to said banks by the Governor in Council under the authority of the Relief Act, 1933.

The Minister further recommends that such guarantee shall become operative and payment thereunder, out of Consolidated Revenue Fund, of the respective balances, if any, then owing, shall be made, after Wheat Producers have sold and realized upon all or practically all of such wheat and other grains in

its possession or control and have sold or disposed of all or practically all such contracts for future delivery of wheat and other grains and application of the amounts realized, less expenses, has been made against such advances and interest, and thereupon the Governor in Council, on the recommendation of the Minister of Finance, shall determine the date at which payments are to be made in pursuance of this guarantee.

The Minister recommends that the Governor in Council may at any time fix and determine a date at which Wheat Producers shall proceed to sell and dispose of all wheat and other grains in its possession or control acquired under the guarantee of the Governor in Council, and shall proceed to sell and dispose of all contracts, entered into and falling within this guarantee, for the future delivery to it of wheat and other grains. Application of the amounts realized, less expenses, shall be made against such advances and interest, and thereupon the Governor in Council, on the recommendation of the Minister of Finance, shall determine the date at which payments, if any are required, are to be made in pursuance of this guarantee.

The Minister finally recommends that should the Relief Act, 1933, expire and no renewal or further extension of the powers therein contained be then enacted, and any portion of such advances or interest to Wheat Producers be unpaid to the said banks, Wheat Producers shall proceed to sell and dispose of all wheat and other grains, if any, in its possession or control acquired under the guarantee of the Governor in Council and shall proceed to sell and dispose of all contracts entered into and falling within the guarantee of the Governor in Council for the future delivery to it of wheat and other grains. Application of the amounts realized, less expenses, shall be made against such advances and interest, and thereupon the Governor in Council on the recommendation of the Minister of Finance, shall determine the date at which payments are to be made in pursuance of this guarantee.

The Committee concur in the foregoing recommendations and submit the same for approval.

(Sgd.) E. J. LEMAIRE,
Clerk of the Privy Council.

APPENDIX "R"

EXHIBIT 26

P.C. 746

CERTIFIED to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 20th April, 1933.

The Committee of the Privy Council have had before them a report, dated 20th April, 1933, from the Minister of Finance, stating that under Order in Council P.C. 2077, dated the 20th day of September, 1932, and for the reasons and considerations therein set out, provision was made under the authority of The Relief Act, 1932, for the guarantee by the Governor in Council of advances made and to be made by chartered banks to certain marketing agencies therein named, to wit:

Manitoba Wheat Pool, with its subsidiary Manitoba Pool Elevators, Limited,

Saskatchewan Co-Operative Wheat Producers, Limited, with its subsidiary, Saskatchewan Pool Elevators, Limited,

Alberta Wheat Pool, with its subsidiary Alberta Pool Elevators, Limited,

(therein and hereinafter referred to as "the Marketing Agencies"), to enable the farmers of the Provinces of Alberta, Saskatchewan and Manitoba to sell their wheat and other grains grown in 1932, or to secure advances upon delivery of such wheat and other grains, to the marketing Agencies.

The Minister observes that, in pursuance of said Order in Council, advances have been made from time to time by certain chartered banks to the Marketing Agencies but a substantial portion of the wheat and other grains grown in the year 1932 in these Provinces is as yet not marketed and is still in the possession or control of the farmers. On the 31st day of March, 1933, the Relief Act, 1932, expired, and further advances under such guarantee could not in consequence be made.

That in order, therefore, to give effect to the original intention, it is necessary that a guarantee supplemental to that originally given shall remain operative and be effective until the whole of the 1932 crop is sold at market rates by the farmers to the Marketing Agencies, or where a sale and delivery outright is not made in the first instance, that advances on the Pool plan as in said Order in Council P.C. 2077 provided can be obtained on delivery of such wheat and other grains to the Marketing Agencies, and so continue until the Marketing Agencies have themselves made sale and delivery of such wheat and other grains and the payments to the banks in full as hereinafter provided have been made.

The Minister, therefore, recommends under the authority of The Relief Act, 1933, that the Governor in Council guarantee to the chartered banks payment by each of the Marketing Agencies of the advances heretofore made, or to be made, by any chartered bank to any of the Marketing Agencies, in connection with and for the purpose of marketing wheat and other grains grown in these Provinces in 1932, this guarantee to extend to any and all of the balances that may be owing after crediting repayments from time to time and interest thereon as may have been agreed upon between such banks and the Marketing Agencies,

until payment in full is made. This guarantee is to be subject to the terms and conditions and supplemental provisions set out in the said Order in Council P.C. 2077. Such terms and conditions and supplemental provisions shall be deemed to be incorporated herewith, the intention being that The Relief Act, 1933, in its operation, shall be supplemental in point of time to The Relief Act, 1932, and that under the authority of the two Acts, the former effective up to the 31st March, 1933, and the latter to the 31st March, 1934, a full and effective guarantee and payment in full as hereinbefore and hereinafter set out shall be provided.

The Minister further recommends that payment under this guarantee shall be made out of Consolidated Revenue Fund of the respective balances, if any are owing, and interest thereon, as aforesaid, after the Marketing Agencies have sold and realized upon all or practically all such wheat and other grains in their possession or control and application of the amounts realized less expenses has been made against bank advances and interest and thereupon the Governor in Council upon the recommendation of the Minister of Finance, shall determine the date upon which payments are to be made out of the Consolidated Revenue Fund in pursuance of this guarantee.

The Committee concur in the foregoing recommendations and submit the same for approval.

(Sgd.) E. J. LEMAIRE,
Clerk of the Privy Council.

The Honourable
the Minister of Finance.

APPENDIX "S"

Exhibit 27

CANADIAN PACIFIC RAILWAY COMPANY

GRAND TOTAL PAY-ROLLS (Excluding Ocean S.S.), 1933

January	$ 5,583,994.66
February	5,422,909.78
March	5,643,625.85
April	5,512,895.49
May	5,757,476.26
June	5,867,376.36
July	5,949,662.77
August	5,996,884.33
September	5,765,166.41
October	5,719,338.31
November	5,472,772.52
December	5,521,858.83
Total	$ 68,213,961.57
Steamships	4,310,000.00
	$ 72,523,961.57

APPENDIX "T"

Exhibit 28

CANADIAN PACIFIC RAILWAY COMPANY

NUMBER OF EMPLOYEES

	1929	1933
Maximum	96,500	63,000
Minimum	70,500	53,000
Average	83,500	58,000

APPENDIX "U"

Exhibit 31

CANADIAN PACIFIC RAILWAY COMPANY

RECORD OF DIVIDENDS FOR YEARS 1920–1932

Ordinary Stock			Preference Stock		
Year	Rate	Amount	Year	Rate	Amount
		$ cts.			$ cts.
1920	10%	26,000,000 00	1920	4%	3,227,276 84
1921	10%	26,000,000 00	1921	4%	3,227,276 84
1922	10%	26,000,000 00	1922	4%	3,227,276 84
1923	10%	26,000,000 00	1923	4%	3,675,010 18
1924	10%	26,000,000 00	1924	4%	3,993,341 38
1925	10%	26,000,000 00	1925	4%	4,005,943 52
1926	10%	26,000,000 00	1926	4%	4,005,943 52
1927	10%	26,000,000 00	1927	4%	4,005,943 52
1928	10%	29,353,632 50	1928	4%	4,067,547 41
1929	10%	30,750,000 00	1929	4%	4,674,789 77
1930	10%	33,242,907 50	1930	4%	5,005,623 43
1931	5%	16,750,000 00	1931	4%	5,410,697 02
1932	......	....	1932	2%	2,745,138 42
		318,096,540 00			51,271,808 69

APPENDIX "V"

Exhibit 32

BANK OF MONTREAL

—	At end of												
	Dec. 1925	June 1926	Dec. 1926	June 1927	Dec. 1927	Mar. 1928	June 1928	Sept. 1928	Dec. 1928	Mar. 1929	June 1929	Sept. 1929	Nov. 1929
	Millions of dollars												
Assets Abroad													
Foreign Currencies	1	1	1	1	1	1	1	1	1	1	1	1	1
Due from Banks Abroad	23	17	23	19	13	15	20	12	19	25	15	14	13
Current Loans Abroad	33	42	60	42	56	64	59	34	55	46	47	38	44
Call Loans Abroad	151	143	153	136	149	120	105	146	135	146	159	135	95
Total Assets Abroad	208	203	237	198	219	200	185	193	210	218	222	188	153
	Millions of dollars												
Liabilities Abroad													
Due to Banks Abroad	6	6	7	8	11	6	8	9	25	31	29	29	19
Other Deposits Abroad	86	77	93	91	101	95	102	91	97	101	123	127	102
Total Deposits Abroad	92	83	100	99	112	101	110	100	122	132	152	156	121
Net Funds Abroad	116	120	137	99	107	99	75	93	88	86	70	32	32
Total Liabilities Abroad	208	203	237	198	219	200	185	193	210	218	222	188	153

APPENDIX "W"

EXHIBIT 33

Copy

P.C. 2693

AT THE GOVERNMENT HOUSE AT OTTAWA

TUESDAY, the 27th day of October, 1931

PRESENT:

HIS EXCELLENCY THE GOVERNOR GENERAL IN COUNCIL:

Whereas the Acting Minister of Finance reports that, owing to the existing general depression, but more particularly the recent international monetary developments, quotations have been recorded in the security markets for many high-grade Government securities which would not seem to be normal or reasonable quotations, or such as might serve as a proper indication of the intrinsic value thereof, having regard to the fact that the security behind these obligations has undergone no fundamental change;

And Whereas the chartered banks are required, under the provisions of the Bank Act, to show investment securities in their monthly and annual financial statements at not in excess of market values;

And Whereas representations have been made by the Inspector-General of Banks that it is in the public interest that a reasonably stable basis of valuation be determined for such high-grade securities;

And Whereas Section 4 of Chapter 58 of the Statutes of 1931 provides that His Excellency the Governor General in Council shall have full power to make all such orders and regulations as may be deemed necessary or desirable for, among other things, maintaining peace, order and good government throughout Canada;

Therefore His Excellency the Governor General in Council is pleased—on the recommendation of the Acting Minister of Finance and under the authority of Section 4 of Chapter 58 of the Statutes of 1931 aforesaid, and of all other powers and authorities in that behalf—to order and it is hereby ordered as follows:

1. That for the purposes of the return provided under Section 112 of the Bank Act and Schedule "G" thereto, and the annual report as directed by Section 53 of the same Act, the chartered banks of Canada shall, until this Order is amended or rescinded, value the securities owned prior to the 31st day of August, 1931, at not more than the book value, or the current market prices thereof on the exchanges at the close of business on the 31st day of August, 1931, whichever may be the less and the securities acquired since the 31st day of August, 1931, at not more than the cost price thereof.
2. This Order shall come into force and effect on the 26th day of October, 1931, shall apply to the returns of the chartered banks as from September 30, 1931, and shall continue in full force and effect until the 1st day of March, 1932, unless sooner amended or rescinded by competent authority.

(Sgd.) E. J. LEMAIRE,
Clerk of the Privy Council.

The Right Honourable
The Minister of Finance.

APPENDIX "X"

Exhibit 34

THE CANADIAN BANK OF COMMERCE

Classification of Borrowers at Canada and Newfoundland Branches and St. Pierre Miquelon

—	30th November, 1929		28th February, 1934	
		$		$
1. Farmers, Ranchers and Cattle Buyers		32,208		20,027
2. Food Products		78,005		41,942
(a) Bakeries	1,214		2,006	
(b) Dairies, Butter and Cheese Factories and Exporters	1,282		323	
(c) Fish, including Packers and Dealers in a large way other than Retail	2,345		628	
(d) Flour Millers and Flour Exporters	11,404		4,978	
(e) Fruit and Vegetable Canners and Fruit Exporters	1,307		1,128	
(f) Grain Dealers, Grain Exporters and Seed Merchants	56,140		32,298	
(g) Meat and Pork Packers	4,313		581	
3. Lumber, Pulp and Paper (Manufacturers, Dealers and Loggers)		13,105		6,305
4. Manufacturers		41,272		20,563
(a) Agricultural Implements	2,815		3,915	
(b) Automobiles	1,191		447	
(bb) Automobile Dealers and Agents	3,270		1,283	
(c) Brewers and Distillers	3,371		1,906	
(d) Builders' Supplies; Brick, Cement, Gyproc, Paints, Varnishes, etc	1,477		465	
(e) Furniture	2,297		1,149	
(f) Iron, Steel and Metal Products of all kinds, except Agricultural Implements and Automobiles	11,550		5,199	
(g) Mining	2,799		683	
(h) Musical Instruments	747		109	
(i) Rubber and Rubber Goods	1,138		268	
(j) Textiles, Cotton, Silk, Woollens, Wearing Apparel, etc., and Furs	8,526		4,025	
(k) Tobacco, Cigars, Cigarettes, Pipes and Smokers' Sundries	716		547	
(l) Oil Refineries	1,375		567	
5. Contractors, Builders and Dealers in Builders' Supplies		7,882		3,391
6. Loans to Customers for Building Purposes pending Permanent Financing, Real Estate, etc		5,999		4,037
7. Wholesalers and Retailers of all kinds not specifically classified elsewhere, including Coal Dealers, Importers, Exporters, Commission Merchants, Manufacturers' Agents, Departmental and General Stores, etc		29,629		13,104
8. Public Utilities (Power, Gas, Electric Light, Electric Railways, Steam Railways, etc.)		6,190		17,771
9. Shipping		1,264		875
10. Financial		17,640		3,080
(a) Finance Companies (all companies discounting instalment paper including automobile paper)	12,061		602	
(b) Banks and Bankers	123		4	
(c) Trust Companies, Mortgage Companies and Insurance Companies	5,456		2,474	
11. Loans against Stocks and Bonds		89,780		47,492
(a) To Brokers and Bond Dealers	55,018		30,000	
(b) To Private Individuals and Companies other than Brokers and Bond Dealers against readily marketable stocks and bonds	34,762		17,492	
12. Loans to Private Individuals and Sundry Dealers and Traders		22,368		15,160
13. Churches, Hospitals and Charitable Organizations		2,815		1,863
14. Governments, Municipalities and Schools		42,925		39,130
15. Staff (a) Residence $556. (b) Other $290		846		
" 470 " 222				692
16. Trade Bills Discounted and Sterling and Foreign Bills of Exchange Purchased		21,459		9,010
		413,387		244,442

(,000 to be added in each case).

APPENDIX "Y"

Exhibit 35: Return to an Order of the Committee, dated April 10 last, on motion of Mr. Bowman, viz:—

Ordered: That the Committee be furnished with a statement showing the difference, if any, between the rates of interest charged by the Bank of Montreal on loans to municipalities in Eastern Canada and to municipalities in Western Canada, in the years 1930 and 1933, inclusive.

A survey of municipal accounts carried at branches of the Bank of Montreal in the years 1930 to 1933 inclusive enables me to make the statement that rates charged on municipal borrowings in 1930-31-32 and the first half of 1933 were stable, and ranged from $5\frac{1}{2}$ per cent to 7 per cent and, since May or June, 1933, from 5 per cent to $6\frac{1}{2}$ per cent, and that during the four years rates to municipal borrowers generally in the West were about $\frac{1}{2}$ of 1 per cent higher than in the East.

The minimum rate applies to the borrowings of a few of the largest cities whose credit is in the highest grade, and whose accounts are therefore sought after, competition being keen for such business. Their high credit standing is also reflected in the quotations for the bonds of these cities, indicating the demand for their securities on the part of the public.

Rates charged on other municipal accounts at the present time vary from $5\frac{1}{4}$ per cent to $6\frac{1}{2}$ per cent, according to the financial standing of the municipalities, the credit balances carried and the cost of doing business in the locality. There are relatively few cases where the maximum rate applies and they are to be found in the East as well as the West.

Allowance being made for exceptions, the credit of the longer established municipalities has stood higher than that of newer communities, the finances of the older, for the most part, showing more stability and larger credit balances, accumulated over the course of years, in the way of sinking funds, etc., being maintained. Both factors, as well as the cost of doing business in the district, have a bearing on borrowing rates.

In Western Canada there is a larger proportion of municipalities of more recent growth, and naturally they have accumulated less in the way of credit balances. These considerations and the higher cost to the bank of operating are taken into account in setting rates, and result in the majority of municipalities in the West paying fractionally higher rates.

Following the reduction of $\frac{1}{2}$ of 1 per cent in the rate allowed on savings deposits in May, 1933, rates charged on Eastern and Western municipal borrowings were correspondingly lowered wherever the credit standing and working of the account justified it. There were very few cases where a reduction was not made.

Montreal, April 16, 1934.

APPENDIX "Z"

Exhibit 36: Return to an Order of the Committee, dated April 10th last, on motion of Mr. Power:

The Canadian Bank of Commerce

EXTRACTS FROM CIRCULARS TO BRANCHES RE STOCK LOANS

16th March 1927

We do not regard it as the function of the banks to assist customers to speculate in stocks, particularly so where the means of the prospective borrowers are limited. The Managers must recognize that the stock market at the moment,

whether in the case of industrials or mines, is at a comparatively high level and it is human nature for the public not to sell when stocks give indications of a rise. On the other hand, when stocks begin to go down, the public get very uneasy and they naturally try to sell out quickly, which, however accentuates the downward move. It is therefore necessary that liberal margins be well maintained.

19th May 1927

We are not desirous of further increasing the aggregate of our loans against stocks and business which has pronounced earmarks of speculation or where the loans are out of proportion to the customers' worth should be definitely declined. We are passing through a speculative cycle in which sight is likely to be lost of real values but a drop in prices must eventually take place and quotations are apt to fall to a surprising extent when the turn comes and there are few purchasers in the market.

15th October 1927

The persistent activity in the stock market evidencing as it does a good deal of indiscriminate buying of securities at high prices continues to give us considerable concern. In view of the fact that the market for stocks in Canada is relatively a narrow one, any sustained selling pressure is bound to have a great effect on present quotations. While we realize that a certain amount of this business must be taken up on grounds of general policy, it is more than ever necessary that careful discrimination should be exercised, that margins should be well maintained and that the borrower, apart from the securities he lodges, should have independent means sufficient to enable him to keep the margins right in a rapidly falling market.

20th October, 1927

The demands for money are increasing and with the movement of the crops in full swing it is obvious that the brokers will not find it so easy to secure loans against stocks. As a result there will probably be more than the usual demands made upon the managers by various individuals to have the bank carry loans for them against securities and we think it well to advise them that it is not our desire to expand our loans in this direction. In fact our stock loans are already higher than we care to see them. The managers should bear in mind that in a stock market such as we have at present, the air is full of rumours and tips, circulated in many cases for the sole purpose of selling shares and our customers who apply for advances against stocks should be advised that this is no time to be making large commitments. The market at present seems high and with speculators bubbling over with enthusiasm, it is surely a time for extreme caution.

5th April, 1928

We notice that investments in stocks are appearing quite frequently in the commercial balance sheets presented with applications for credit. It is obvious that it is not the best practice for a commercial enterprise to go outside its field by acquiring holdings in speculative stocks which have no connection with the business in which it is engaged and we would suggest that when situations of this kind appear the first opportunity should be taken to advise the borrower that it is in his interest to conserve his funds for his business. We cannot, of course, take exception where a company is accumulating reserves in the form of high-class securities, but speculative inclinations—where it is obvious the customer is none too strong and is only taking a "flyer" in the market—should be discouraged as unsound.

1st June, 1928

The Federal Reserve Banks of the United States have recently raised their rediscount rates and they made it quite clear that they believed too much money is being used for the purpose of speculation and that loans against stocks must be reduced. This can be accomplished only by liquidation in the stock market and liquidation across the line will undoubtedly result in liquidation in Canada. The present is therefore a time for exercising extreme care where we are carrying loans against stocks. Liberal margins must be maintained and shares other than those of recognized well established companies, especially those which have a narrow market, should not be relied upon as collateral. As we have pointed out on several former occasions, many stocks might easily drop 50 per cent or more in a bad market, so that all stock loans must be carefully watched.

20th November, 1928

Loans for speculative purposes tend to produce unhealthy situations and through price fluctuations in securities a false sense of values. It is a function of the banks to provide assistance for the needs of industry and agriculture and where there is only so much money to go around it stands to reason that the more there is used for stock speculation, the less there is available for legitimate purposes, such as moving crops and the like. We feel quite perturbed over the insistent demand for loans on stocks and sooner or later we may witness a drastic reaction. As we have pointed out on several occasions, on a weak market margins of even 50 per cent may fade quickly and managers must watch their stock loans with extreme care.

Where customers insist upon buying new securities they should sell sufficient of their present holdings to pay for the fresh purchases rather than increase their loans. In the present frame of mind the public's main object appears to be to buy all the stocks the individual thinks he can arrange to finance and when the trouble comes he is obviously likely to find himself overextended. Our managers have a real problem to keep stock-borrowing customers in line. We are most anxious to avoid a situation where our branches are left with large lock-ups in stock loans, when the present market craze passes with its usual distressing results.

Customers come to the bank and say, "We have a large equity with our brokers and we want to the bank to take over our account." The obvious answer to this is, "Sell enough of your present securities to pay off your broker and take the balance of the securities into your own possession." The brokers on the other hand say to their customers, "In order that we can do more business, get a loan from your bank," and so the vicious cycle goes on. There is little use preaching to the public because they will only heed by experiencing severe losses, but what we must avoid is becoming tied up with too many stock loans and thus risking the possibility of having eventually to shoulder the load. Our managers should point out to customers that this is a very high market and a risky one and that they cannot go on forever making a profit by buying and selling to someone else and that some day the end must come.

We have at present no drastic policy in mind regarding stock loans but we do feel that their tendency must be downward. This can be accomplished only by the reduction of loans through savings or by a customer being induced to sell part of his holdings where the load which he carries is out of proportion to his means. Our managers can perform a splendid service by pointing out to customers that this is no time to carry large loans on speculative securities and that they should put their financial obligations on a proper basis.

19th September, 1928

We wish to emphasize again that the bank's funds (and so far as we can see the funds of other Canadian banks) are very fully employed in taking care of

the commercial requirements of the country. In consequence we are asking the managers to be careful not to encourage in any way requests for loans against stocks and also endeavour to arrange in every possible case for systematic reductions in the loans of this character now current on their books. We appreciate that in isolated instances some latitude is expedient but where such cases exist an advanced scale of interest rates is clearly reasonable. We are also asking the managers for better co-operation in getting stock loans of the bank down to normal level, both in the interest of the bank and its customers. The prevailing prices of many stocks are in our opinion inflated much beyond justifiable levels and we regard the general situation in this respect as most unhealthy. From time to time we are assured that this or that customer will soon or within a few months commence reduction of his loans, but these promised reductions very seldom materialize. Obviously this is most unsatisfactory. We are not content to agree to action being deferred in the hope that an upward trend in stock prices will occur and where payments cannot be effected from funds in hand it is the duty of the manager to arrange with his customers to sell without delay a reasonable proportion of the securities pledged and to apply the proceeds on their loans. The majority of customers merely carry loans on stocks in the hope that they can sell later on to someone else at higher prices and a point is eventually reached—more particularly when stocks begin to decline—where no one wants to buy.

Extracts from the Address of the General Manager, Mr. S. H. Logan, to the Shareholders at the Annual Meeting of the Bank, 10th January, 1928

There has been considerable speculation in stocks which has created the impression that general trade is more active than it really is, but it is important for speculators to bear in mind that they should not make commitments beyond their ability to pay. Overtrading can lead only to disaster, and brokers can greatly help maintain a condition of sanity in the stock market by insisting on the maintenance of very substantial margins.

Extract from the Address of the President, Sir John Aird, to the Shareholders at the Annual Meeting of the Bank, 8th January, 1929

I am certainly of the opinion that, while the situation is sounder here than in the United States, the time for a halt has come, and that banks and financial houses should do all in their power to restrain the speculative tendency within reasonable bounds. . . . It is well to remember that a rise in prices in the stock markets does not in itself increase the wealth of a country. In so far as it is due to inflation of credit it amounts simply to a revaluation on paper, largely made in anticipation of what the future may bring. If these anticipations are realized all goes well, but, too often, the reverse is the case. The supply of credit from the banks should be based, not on mere anticipations of future wealth, but on that which is actually in existence, and which can be utilized for the increase of bank reserves. On this basis alone can a sound expansion of bank credit take place.

THE CANADIAN BANK OF COMMERCE

CIRCULARS TO BRANCHES RE COMMERCIAL LOANS

16th March, 1927

It is gratifying to note that a fair proportion of the balance sheets coming before us show that satisfactory profits have been earned during the past year. We observe, however, that in many cases there is a tendency on the part of the owners of commercial enterprises and firms to withdraw a larger percentage of the earnings by way of dividends, etc., than is justified, either by the financial position of the business or the amount of the profits. In the interests of our

customers and also from our own standpoint it is desirable, that a substantial proportion of each year's earnings should be left in the business to build up a strong liquid position as a reserve to fall back on in lean years.

5th April, 1928

We wish to point out again to our managers that it is important to impress on customers that it is highly desirable from their point of view to leave a reasonable proportion of annual profits in the business in order to build up a real reserve for possible contingencies. Many of our smaller clients are inclined to withdraw annually practically all that the business makes, and when hard times come there is no actual reserve to provide for unusual losses. Our managers can be of great assistance by giving friendly advice in an important matter of this kind.

12th November, 1929

There is a continued strong demand for new loans and enlarged credits which inclines us to the view that there may a tendency on the part of many of our customers to accumulate inventories beyond the needs of their respective businesses, or to manufacture for stock in anticipation of forthcoming orders. There is no justification for increasing inventories at this time except for the purchase of raw materials to take care of the manufacture of goods for orders on hand from first-class concerns.

2nd June, 1930

We have previously emphasized the desirability of customers refraining from accumulating inventories beyond the immediate needs of their business, and from manufacturing for stock in anticipation of forthcoming orders. We went so far as to say that there was no justification for increasing inventories in the fall of last year, but notwithstanding this we find that in a great many cases coming before us inventories were higher at the end of December than a year ago.

In discussing this feature we have frequently been advised that customers feel it would be unwise to hurry liquidation of stocks as they believe it will be possible to work them off without loss over a period of the next three or four months. We may say, however, that it is our feeling that there will be many whose inclination is to follow this course rather than face their loss now.

Customers should be counselled to cut their inventories as far as possible, even if losses have to be taken, because it is much better that they should have the situation behind them rather than to be carrying on in a state of uncertainty as to when and at what sacrifice they will be called upon to move out their heavy inventories.

5th June, 1931

We are, of course, ready as always to acquire new loaning business where the basis is sensible and the source of repayment is properly in sight. Conditions at the moment are admittedly unsatisfactory but we look with confidence to the future and feel that when commodity prices become more or less stable there will be a definite turn for the better. It is also the case that with a background of valuable natural resources and a level-headed population the eventual outcome is bound to be favourable.

8th September, 1931

We should like every manager to do what he can to bring about a better picture than is now presented in respect of our unsatisfactory farmers' business bearing prominently in mind at the same time that we do not want to add to the difficulties of our farmer customers. It is not inflicting hardship, however

to insist that a farmer—who is clearly able to do so—should pay his just debts, or pay something on account of them if that is the best he can do. On the other hand, to bring useless pressure to bear upon a debtor who is struggling to avoid the loss of his assets and earning power or finding it hard to maintain his family can only arouse antagonism without any advantageous result.

July, 1932

It is difficult to maintain earnings at a satisfactory level and good new business would be welcome. It is too much to expect that all applications presented under present conditions shall be free of defects but, provided the business is fundamentally sound and its defects are of a temporary character—the product of the present unusual conditions—and capable of correction, there is no reason why the applications should not receive sympathetic and favourable consideration.

In times like these the qualities of courage, good sense and foresight are valuable to an unusual degree. It is a common fault to assume that the conditions of the moment will continue always. This is true of both booms and depressions. In 1929 many people could see no gathering clouds and no reason why the conditions of that time need ever change. It is not unusual now to hear people assert that the present conditions will continue indefinitely, or even become worse, whereas in the light of past history there is every reason to expect the turn should not be far away.

29th April, 1932

It is natural to expect our farmer customers to behave in much the same way as any other class would do when they first find themselves in possession of funds after several years of small or no income. The tendency would be to protect their homes from foreclosure, their equipment from seizure and their families from want, by paying arrears of taxes, mortgage interest, liens on essential equipment and building up a cash position. So long as they do not carry the last too far the effect is to improve the position of creditors, as well as the farmers. This is because protection of the farmers' earning power is essential to the ultimate return of the creditors' money. Provided the position of the borrower is not so extended as to make it impossible for him to work out of his difficulties, the grounds on which the bank could take exception to such a distribution are very slight.

In framing your policy regarding farmers' accounts in the unsatisfactory category the aim should be as far as possible to pursue a course which combines the co-operation of the bank with the wholehearted efforts of the farmers. This would result in the reconstruction of their position in reasonable time and the restoration of their accounts to the category of desirable business.

Numerous applications will no doubt be received for harvest and other expenses. We are desirous of assisting good farmers to a reasonable extent but we must be assured of repayment from the proceeds of this crop and that we are not paying out money for the benefit of other creditors. Where the applicant's position is involved to the point where the distribution of his funds is largely out of his control, or for other reasons he cannot be depended upon to regard the loan as a first charge on his crop, the application should be refused.

EXHIBIT 37—Appendix "AA"

PARTICULARS OF INCREASES IN CAPITAL STOCK OF THE CHARTERED BANKS FROM JULY 1, 1923 TO DECEMBER 31, 1933

Bank	Date of allotment	Amount of increase (par value)	Issue price per share	Disposition of amount of issue price in excess of par value	Remarks
		$	$		
Bank of Montreal	Jan. 25, 1925	2,666,700	....	....	Issued to shareholders of the Molsons Bank in connection with the acquisition of the business of that bank, in the proportion of two shares of Montreal for three of Molsons plus a cash payment of $10 per each share of the Molsons Bank.
Bank of Montreal	Feb. 9, 1929	6,083,300	200	Transferred to the credit of published Rest or Reserve Fund.	
The Bank of Nova Scotia	Dec. 31, 1929	2,000,000	250	" "	
The Bank of Toronto	Dec. 1, 1928	1,000,000	200	" "	
La Banque Provinciale du Canada	April 30, 1926	1,000,000	120	Transferred to the credit of published Undivided Profits (or surplus) Account.	
The Canadian Bank of Commerce	Jan. 2, 1924	5,000,000	....	....	Issued to shareholders of the Bank of Hamilton in connection with the acquisition of the business of that bank on a share for share basis.
The Canadian Bank of Commerce	Nov. 7, 1928	4,823,400	....	....	Issued to shareholders of the Standard Bank of Canada in connection with the acquisition of the business of that bank on a share for share basis.
The Canadian Bank of Commerce	Mar. 28, 1929	5,176,600	200	Transferred to the credit of published Rest or Reserve Fund.	
The Royal Bank of Canada	Sept. 1, 1925	4,000,000	....	....	Issued to shareholders of the Union Bank of Canada in connection with the acquisition of the business of that bank in the proportion of one share for two.
The Royal Bank of Canada	Dec. 11, 1926	5,600,000	200	Transferred to the credit of published Rest or Reserve Fund.	
The Royal Bank of Canada	Nov. 28, 1928	5,000,000	200	" "	
The Dominion Bank	Dec. 31, 1928	1,000,000	200	" "	
The Standard Bank of Canada	Dec. 31, 1924	823,400	....	....	Issued to shareholders of the Sterling Bank of Canada in connection with the acquisition of the business of that bank in the proportion of two shares for three.
Banque Canadienne Nationale (formerly Banque d'Hochelaga)	May 1, 1924	1,500,000	....	....	Issued to shareholders of La Banque Nationale in connection with the acquisition of the business of that bank in the proportion of one share for two.
Banque Canadienne Nationale	Jan. 15, 1929	1,500,000	160	Transferred to the credit of published Rest or Reserve Fund.	
		47,173,400			

Note.—Any surplus received (over and above the rate per share at which allotments were made) from the sale of shares not taken up by shareholders to whom they were allotted, or resulting from the non-allotment of fractions, was either distributed to the shareholders entitled thereto or accrued to the benefit of shareholders as a whole by being credited to general reserves or undivided profits.

APPENDIX "AB"

Exhibit 38

LIST OF SHAREHOLDERS' AUDITORS OF THE CHARTERED BANKS—1934

Bank	Names of auditors	End of fiscal year
Bank of Montreal	W. D. Glendinning, C.A. (of Campbell, Glendinning & Company) Charles A. Hodgson, C.A. (of Creak, Cushing & Hodgson)	October 31.
Bank of Nova Scotia	D. McK. McClelland, F.C.A. (of Price, Waterhouse & Co.) W. D. Glendinning, C.A. (of Glendinning, Gray & Roberts)	December 31.
Bank of Toronto	D. McK. McClelland, F.C.A. (of Price, Waterhouse & Co.) A. B. Shepherd, C.A. (of Peat, Marwick, Mitchell & Co.)	November 30.
Provincial Bank of Canada	J. A. LaRue, C.A. (of LaRue & Trudel) Rodolphe Bedard, C.A.	November 30.
Canadian Bank of Commerce	D. McK. McClelland, F.C.A. (of Price, Waterhouse and Company) A. B. Shepherd, C.A. (of Peat, Marwick, Mitchell & Co.)	November 30.
Royal Bank of Canada	W. Garth Thomson, C.A. (of Peat, Marwick, Mitchell & Co.) James G. Ross, C.A. (of P. S. Ross and Sons)	November 30
Dominion Bank	A. B. Shepherd, C.A. (of Peat, Marwick, Mitchell & Co.) D. McK. McClelland, F.C.A. (of Price, Waterhouse and Company)	December 31.
Banque Canadienne Nationale	Maurice Chartre, C.A. (of LaRue and Trudel) John W. Ross, C.A. (of P. S. Ross and Sons)	November 30.
Imperial Bank of Canada	A. B. Shepherd, C.A. (of Peat, Marwick, Mitchell & Co.) D. McK. McClelland, F.C.A. (of Price, Waterhouse and Company)	October 31.
Barclays Bank (Canada)	A. B. Brodie, C.A. (of Price, Waterhouse and Company) John Paterson, C.A. (of Riddell, Stead, Graham & Hutchison)	September 30.

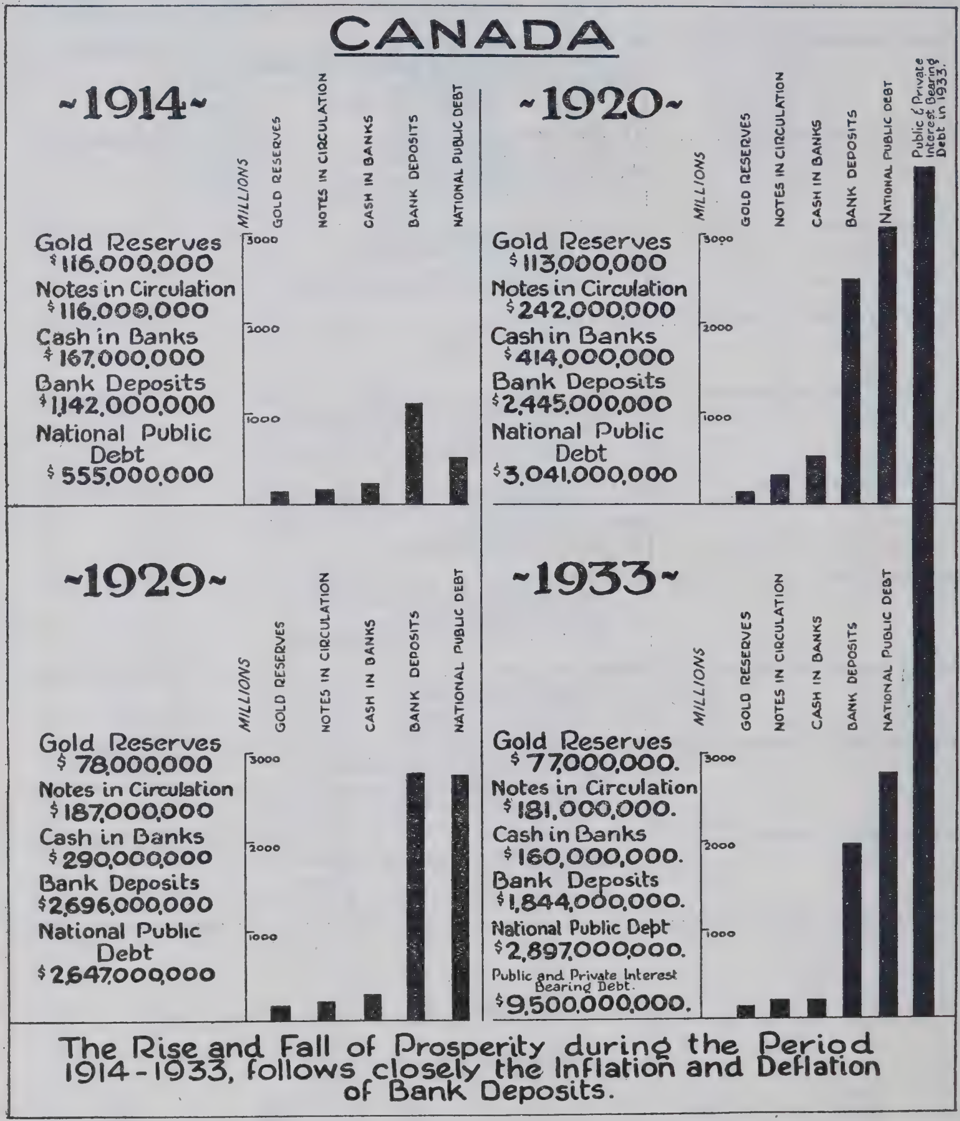
EXHIBIT 39

Appendix "AC"

1931	106	41
1932	136	68
1933	106	36
To March, 1934	17	1
	365	146

APPENDIX "AD(1)"

The Gold Standard Sound Money System Maintains Money Shortage and Results in Inflated Bank Deposits and Interest-bearing Debts.

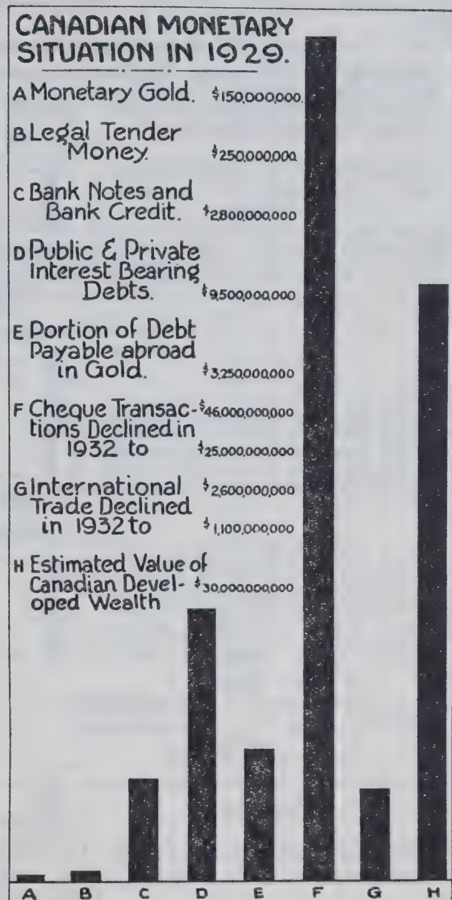


APPENDIX "AD(4)"

Canada's Mountain of Unpayable Interest-bearing Debt

Money Shortage, combined with Debt Inflation, establishes the Lender of Credit as the Owner of the Nation's Wealth and the Rulers of the People.

APPENDIX "AD(2)"



Canadian Monetary System Developed in 1929 by the Banked Managed Gold Standard Money System, Exemplifying the shortage of Money, Inflation of Credit and Interest Bearing Debt that the system is designed to accomplish.

APPENDIX "AD(3)"

BALANCED ECONOMY

The effective circulation of purchasing power can be maintained by correlating the government's power to create and issue credit with its power to levy and collect taxes and to regulate trade.

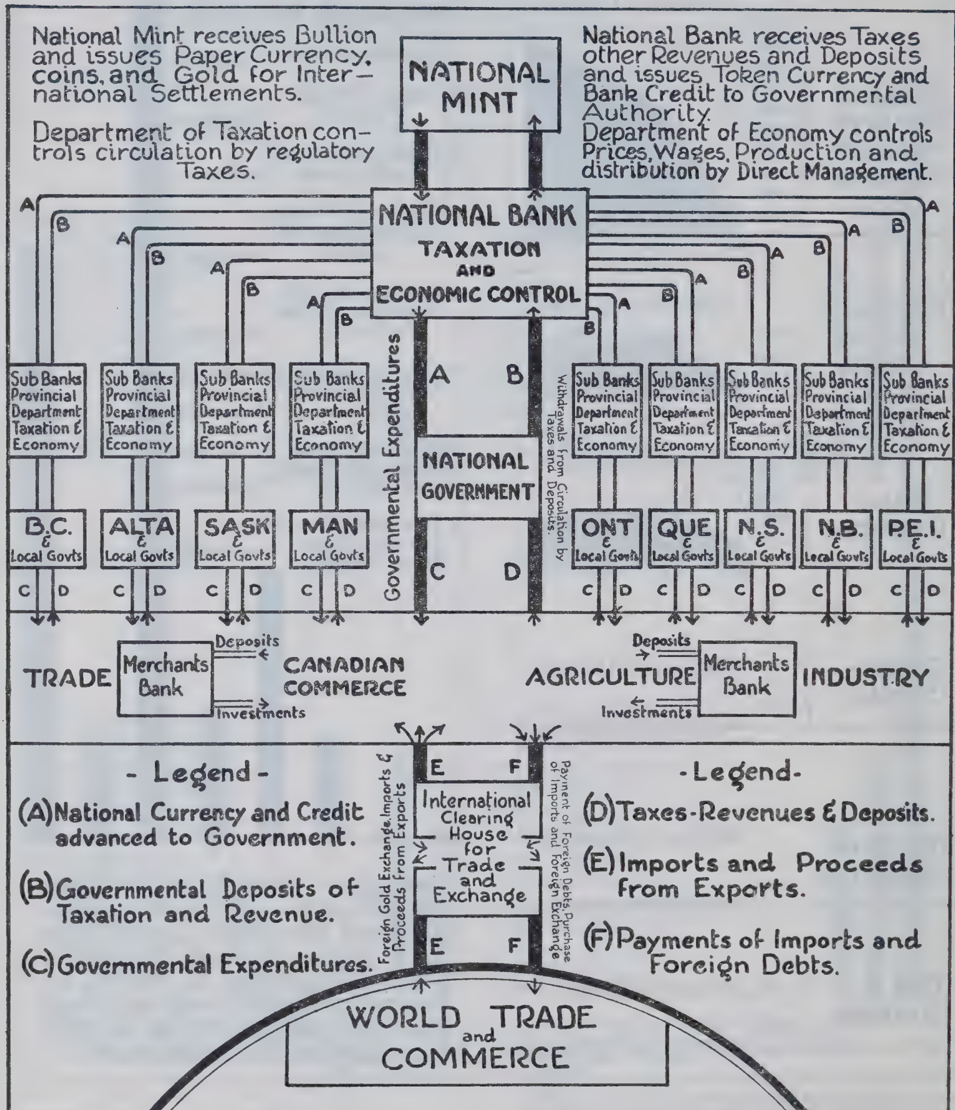


EXHIBIT 45

Appendix AE

UNITED PROVINCES OF CANADA

CURRENCY NOTE

ONE DOLLAR

Legal tender throughout the United Provinces of Canada
Issued in pursuance and under authority of the Currency Act 1935, January 1st, 1936.

NATIONAL CURRENCY COMMISSION.

The issue and circulation of imitation currency notes is prohibited.

................Comptroller.................. Chairman

..........................Chief Cashier

Jan. 1st 1936 (Stamp)	Feb. 1st 1936 (Stamp)	Mar. 1st 1936 (Stamp)	Apr. 1st 1936 (Stamp)	May 1st 1936 (Stamp)	June 1st 1936 (Stamp)	July 1st 1936 (Stamp)	Aug. 1st 1936 (Stamp)	Sept. 1st 1936 (Stamp)	Oct. 1st 1936 (Stamp)	Nov. 1st 1936 (Stamp)	Dec. 1st 1936 (Stamp)

Subject to a demurrage stamp charge of 1% on each due date marked above. Not legal tender unless correctly stamped.

Must be exchanged for a note of the same denomination between December 5th and December 31st, 1936, at any bank, post office, or district currency office.

The above is a suggested sample of a Gesell Scientific Currency Note.

(a) They cannot be hoarded and must relentlessly circulate.

(b) Their circulation guarantees *brisk trade, full employment, higher wages, spot cash payment, decreasing interest rates, lower taxes, decreased business overhead.*

Issued by THE FREE ECONOMY LEAGUE OF CANADA

President:
DR. WM. GORDON CUMMING

National Executive Secretary:
E. S. WOODWARD
3576 West 36th Ave., Vancouver, B.C.

Address application to
E. S. WOODWARD
National Executive Secretary,
The Free Economy League of Canada,
3576 West 36th Avenue, Vancouver, B.C.

MEMBERSHIP APPLICATION FORM

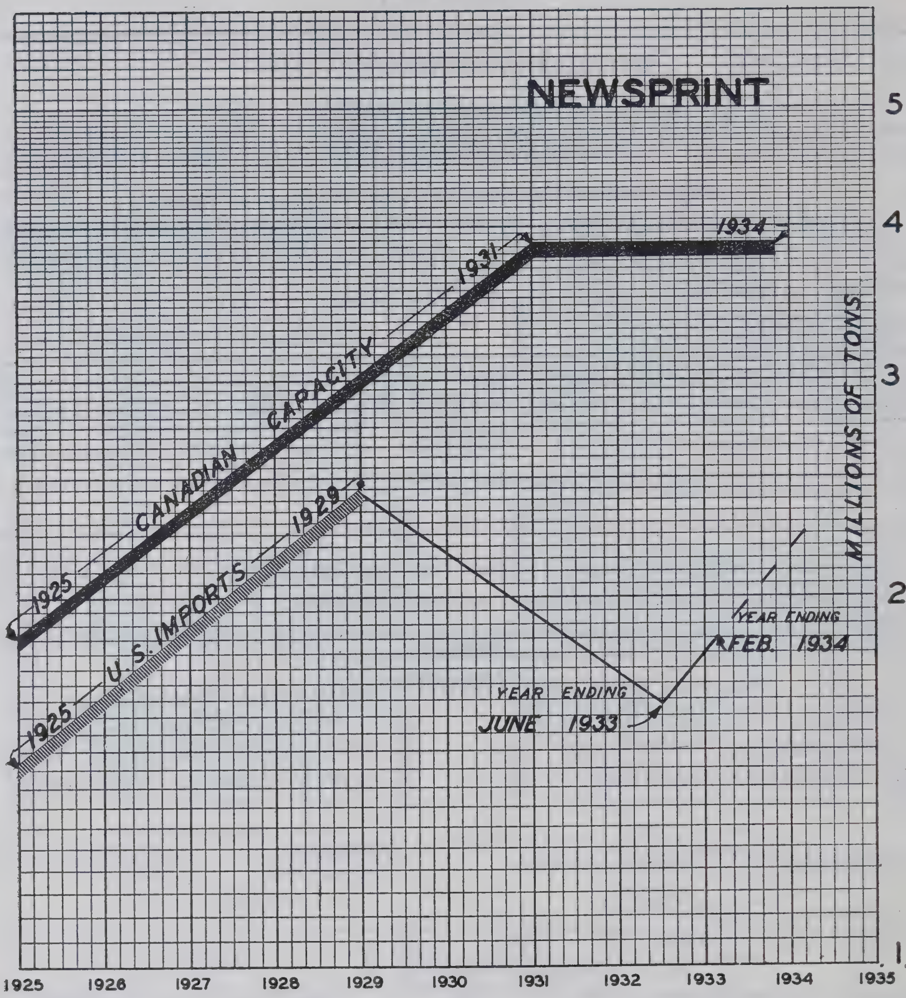
I am in favor of introducing the Gesell Scientific Monetary System into Canada as the first step towards economic reconstruction, and therefore apply to be enrolled as an ACTIVE/STUDENT/ASSOCIATE member of the Free-Economy League of Canada. Membership fee of one dollar enclosed, and a donation of $..................................towards the object of the League.

....
Name.

....
Address

APPENDIX AF

Exhibit 47



APPENDIX AG

Exhibit 48

Montreal, May 21, 1934.

R. B. Hanson, Esq., M.P.,
Chairman, Select Standing Committee on Banking and
Commerce, of the House of Commons,
Ottawa, Ont.

Dear Sir,—In your letter to me of the 17th instant, you request my attendance before your Committee to give evidence in relation to the following matters:

> The relationship between the Banks or any of them and the Pulp & Paper Industry and the extent to which uncontrolled extension of credit brought about over-capitalization and over-expansion, and the subsequent disorganization and near bankruptcy of an industry dealing in some of the most valuable of our natural resources.
>
> Also with particular reference to the creation of the Canada Power & Paper Company, Limited.

If I may be permitted to do so, I would like first to point out the extent to which over-expansion of the newsprint industry has taken place, and the circumstances under which such over-expansion occurred, in the hope that a brief outline of the facts in this connection will make clear the responsibility for such over-expansion and " subsequent disorganization of an industry dealing in some of the most valuable of our natural resources."

The expansion of the newsprint industry in Canada since the War has been phenomenal, the annual capacity having increased from 715,000 tons per annum in 1917, to 3,898,000 tons in December 1930. During the first ten years of this period, the increase in installed capacity was moderate, averaging approximately 205,000 tons per annum, and the increase in consumption approximately kept pace with the increase in installed capacity, so that in 1926 the industry operated at over 96 per cent of capacity, and there was no difficulty in obtaining a fair price for the paper produced.

The contract price for newsprint paper in 1926 and 1927 was $65.00 per ton, at which price any efficient mill could make a satisfactory profit. Between January 1st, 1926 and December 31, 1930, new newsprint machines were installed equivalent in capacity to all machines installed in Canada from the commencement of the industry to January 1, 1926, and it is the hopeless struggle to find business for these new machines, together with the almost precipitous decline in consumption consequent upon the world depression, that has caused the disorganization of the industry, because not only were long established companies forced to give up business to the new-comers, but in the desperate effort to get business for new machines, prices were cut, first from $65.00 in 1927, to $62.00 in the middle of 1928, to $57.00 in 1931, to $45.00 in the latter part of 1932, and to $40.00 in 1933. At these prices it is doubtful if any of the newsprint companies can make a real profit if proper charges for maintenance, depreciation and depletion of timber limits are recognized.

The foolishness of such a policy is strikingly indicated by the fact that in some cases the taking of orders for a comparatively few thousand tons of paper, at cut prices, has resulted in smashing the price structure and involving the whole newsprint industry in annual losses aggregating many millions of dollars.

During the Dominion Government's fiscal year ended March 31, 1929, Canada exported 2,263,000 tons of newsprint, for which was received over $142,-000,000; for the fiscal year ended March 31, 1933, Canada exported 1,662,984 tons, for which was received approximately $74,000,000—a difference of $68,000,-000. For the fiscal year ended March 31, 1925, exports were 1,251,000, with a value of over $91,800,000; in 1926, the exports were 1,476,866 tons, with a value of aproximately $102,000,000. These figures strikingly indicate the collosal annual loss to Canada resulting from the policies followed during the last few years.

The tonnage exported in 1929 was the greatest in the history of the Canadian industry, and each year thereafter, there was a substantial reduction in the tonnage exported, up to 1933; this, of course, accentuated the competitive pressure for business, the capacity steadily rising during this period, while the consumption declined.

An analysis of the construction program since 1926 indicates that five groups, under American and English leadership, were responsible for 71.45 per cent of the new tonnage, viz:—

	Tons	Per Cent
International Paper Co. Ltd.	900	20.22
Abitibi Group	700	15.73
Minnesota & Ontario Group (including Great Lakes Paper Company)	600	14.61
Spruce Falls Paper Company	450	10.11
Anglo-Canadian Paper Company	480	10.78
	3,130	71.45

The financing of the above expansion was under the sponsorship of American and English financial groups, so that it would appear that the extension of credit by Canadian Banks did not influence this construction.

The balance of the new tonnage was installed by the following Companies and in the following proportions:—

	Tons	Per Cent
St. Lawrence Paper Mills, Ltd.	480	10.78
Price Bros. & Co. Ltd.	240	5.40
Mersey Paper Company, Ltd.	240	5.40
Maclaren Power & Paper Company	240	5.40
Bathurst Pulp & Paper Company	70	1.57
	1,270	28.55

So far as I am aware, the installation of this tonnage was not brought about by any uncontrolled extension of credit by Canadian Banks, the fact being that the earning record of the Canadian newsprint industry up to 1927, and even later, was so satisfactory as to command ready supply of capital by investors through the public issue of securities, and it was not, therefore, necessary to rely on the Banks to any abnormal extent for financing this expansion—in fact, earnings continued on a fairly satisfactory basis up until 1930.

Your letter asks me to refer to the creation of the Canada Power & Paper Corporation.

In January, 1928, St. Maurice Valley Corporation was amalgamated with Laurentide Company, Limited; this was accomplished through the formation of Canada Power & Paper Corporation, which issued its own debentures to the extent of $28,800,000 principal amount in exchange for an equal par amount of the shares of the Laurentide Company, Limited, Canada Power & Paper Corporation giving, in addition, one common share for each $100 par value common share of Laurentide Company, Limited. For each common share of St. Maurice Valley Corporation, the new Corporation issued $2\frac{1}{2}$ shares of common stock. At no time did Canada Power & Paper Corporation issue or sell any of its securities for cash or make any appeal to the public for capital, directly or indirectly.

These exchanges were approved at meetings of the respective Boards of Directors of St. Maurice Valley Corporation and Laurentide Company, Limited.

No bank or financial house had any part or, so far as I am aware, received any fees, remuneration or profit in connection with the transaction.

In October, 1929, the Canada Power & Paper Corporation acquired the common shares of Port Alfred Pulp & Paper Corporation, issuing $2\frac{3}{4}$ shares of Canada Power for each common share of Port Alfred. They also, at the same time, acquired the shares of Wayagamack Pulp & Paper Company, Limited, issuing $50 of Canada Power & Paper Debentures and $1\frac{1}{2}$ shares of common stock for each common share of Wayagamack Pulp & Paper Company.

At no time did Canada Power & Paper Corporation, directly or indirectly, promote the installation of any new newsprint machines. The latest installations by any of the subsidiaries of Canada Power & Paper Corporation, were four machines ordered by Port Alfred in 1925, and completed during 1926, these machines having a capacity of 144,000 tons per annum; and two machines ordered by St. Maurice Valley Corporation in 1926, completed during that year, and having a capacity of 72,000 tons per annum.

During the first four months of 1934, consumption of newsprint has increased by more than 46 per cent over the same period of last year, bringing the consumption for April of this year to the highest point of any April in the history of the industry, excepting in 1929 and 1930.

The history of the newsprint industry in former depressions would indicate that it might reasonably be expected to respond very substantially to continued improvement in general business conditions. The difficulties of the last few

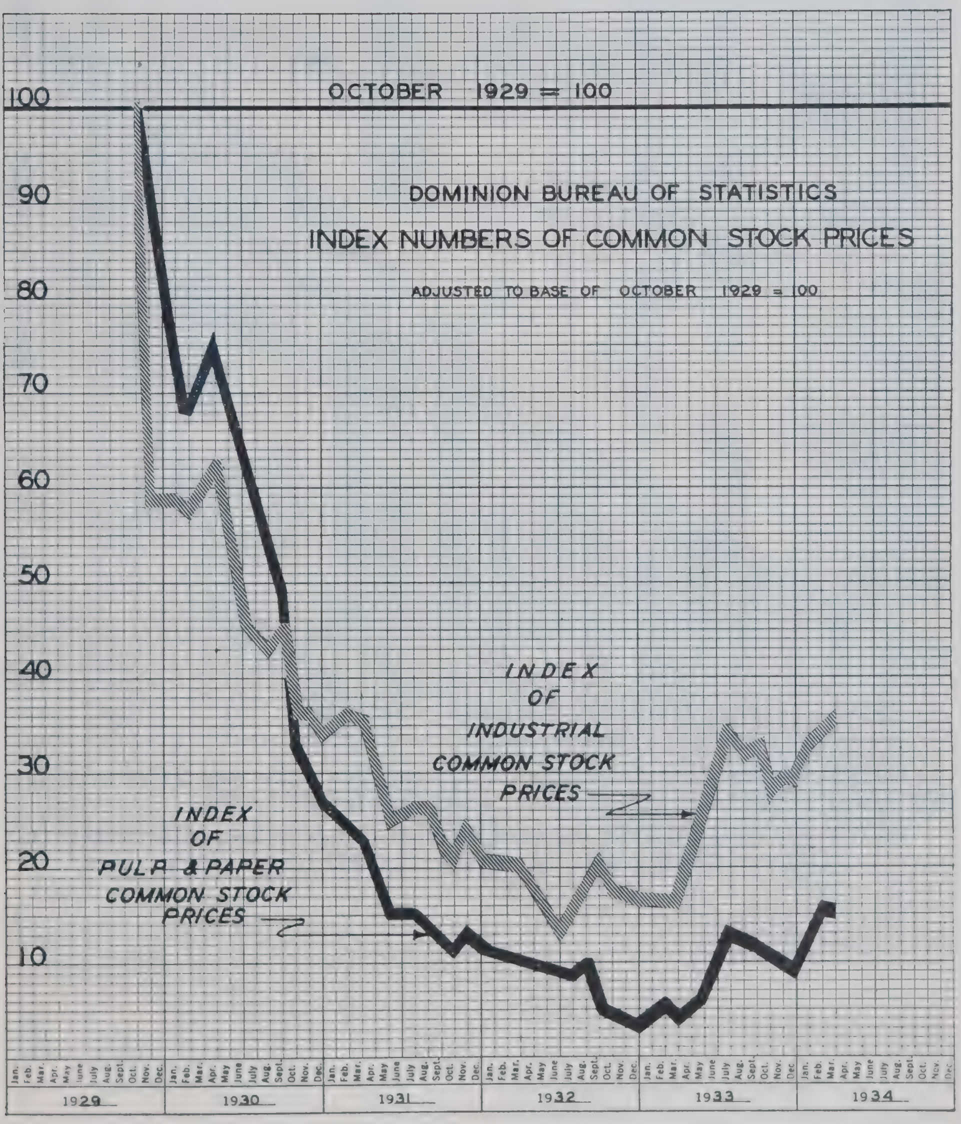
years have resulted—in the case of most companies—in the institution of economies and more careful management, resulting in lower costs of production, so that if under the leadership of the Governments concerned, or otherwise, the present system of cut-throat competition and unrestrained expansion could be checked, the newsprint industry of Canada may be expected gradually to return to a prosperous condition.

Yours very truly,

J. H. GUNDY.

APPENDIX A H

Exhibit 49



APPENDIX AI

Exhibit 62

NEWSPRINT DAILY TONNAGE CAPACITIES

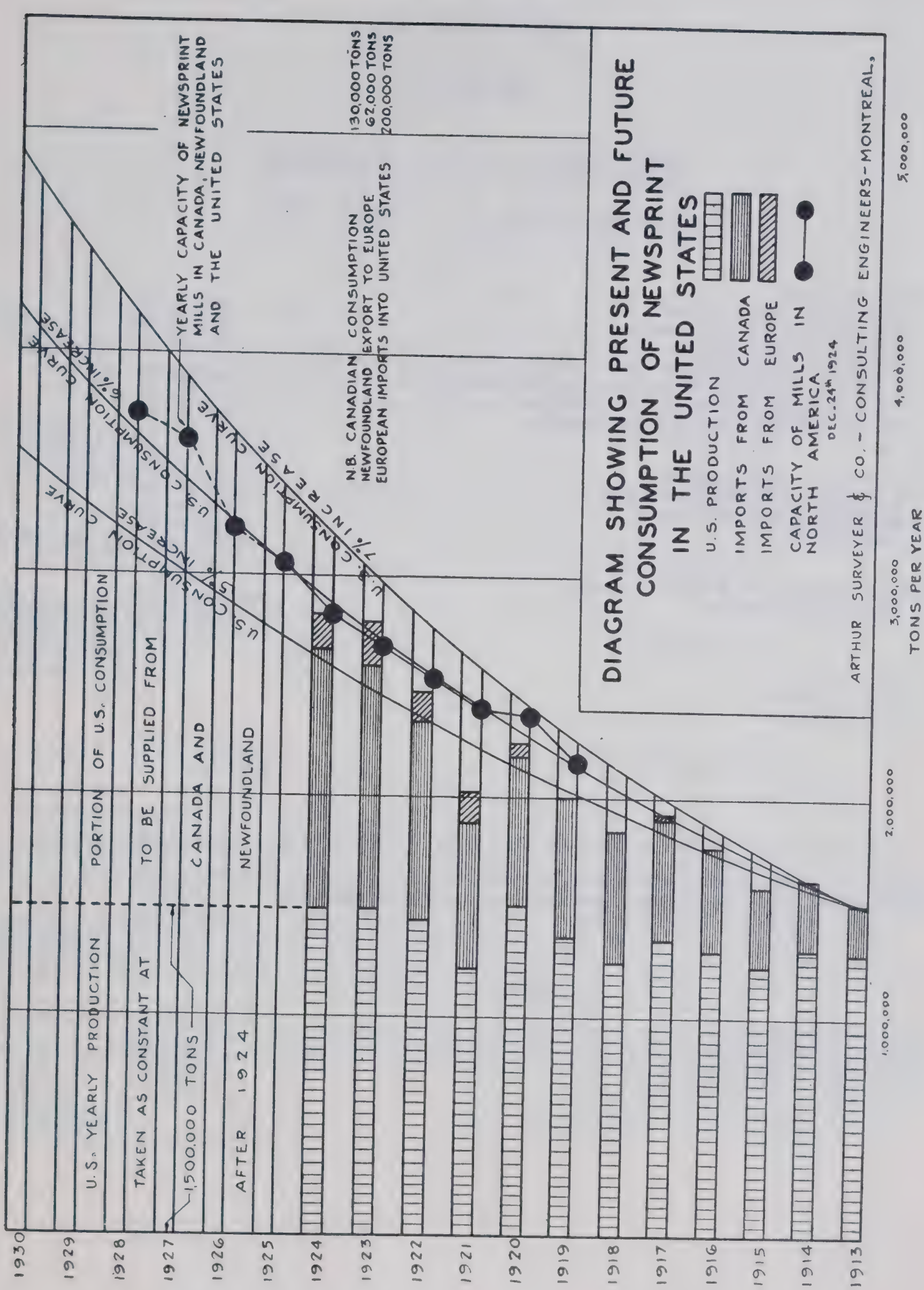
—	Capacity	Additional Capacity									Capacity
	1924	1925	1926	1927	1928	1929	1930	1931	932	1933	1934
Canadian Mills—											
Abitibi	5,513			500							2,013
Anglo-Canadian				240	240						480
Bathurst	70					70					140
Beaver		77									77
Booth	158										158
Brompton	119			120							239
Canadian International	452		340	500		45	480				1,817
Canada Power & Paper Corp. Mills (now Consolidated Paper Corp.)—											
Belgo	402		240								642
Laurentide	389										389
Port Alfred			480								480
St. Maurice	263										263
Wayagamack		200									200
	1,054										1,964
Donnacona	240										240
Eddy	27	100									127
Fort Francis	163			120							283
Great Lakes	39				125	150					314
KenoraPaper Mills	127		125								252
Lake St. John					260						260
MacLaren							240				240
Mersey Paper Co. Ltd.	53					240					293
News Pulp & Paper Co. Ltd.	37										37
Ontario Paper Co.	429										429
Pacific Mills Ltd.	256										256
Powell River	290		240				120				650
Price Bros.	580	200				240					1,020
Provincial Paper Mills Ltd.	63										63
St. Lawrence	160		150			150					460
Spruce Falls					480						480
Thunder Bay				120	126						246
Murray Bay					100						100
	5,830	577	1,575	1,600	1,331	895	840				12,618
Newfoundland Mills	405	435	120			45				125	1,130
United States Mills	5,018			265	100		240				5,623
TOTAL	11,253	1,012	1,695	1,865	1,431	940	1,080			125	19,401

In 1926 the installed daily capacity of Canadian Mills was 7,952 tons. In 1933 it was 12,618 tons, an increase of 4,666 tons or 58½ per cent.

In 1926 the installed daily capacity of all North American Mills was 13,960 tons. In 1933 it was 19,401 tons, an increase of 5,441 tons, or 39 per cent.

APPENDIX A J

EXHIBIT 63



APPENDIX AK

Exhibit 64

MONTREAL TRUST COMPANY

Balance Sheet, December 31, 1933

ASSETS

Capital Account:		
Cash in Banks and on hand	$ 199,138 47	
Sundry Time and Call Loans	344,619 86	
Mortgage Loans	681,012 57	
Securities owned by Company (including Dominion of Canada Bonds) at Market value, December 31, 1933	5,973,707 61	
Office Premises—Montreal Trust Building	310,758 28	
Other Assets not included in the foregoing	380,469 82	
		$ 7,889,706 61
Guaranteed Trust Account:		
Call Loans on Bonds, Stocks, etc	$ 13,881 419 68	
Investments at Market Value	2,189,041 23	
Cash in Bank	1,892,746 53	
		$ 17,963,207 44
Estates, Trusts and Agency Account:		
Funds and Investments	$ 799,910,729 21	
		$ 799,910,729 21
		$ 825,763,643 26

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 1933

Balance brought forward from December 31, 1932	$ 462,185 85	
Add Net Profits for the year after providing for expenses of management, accrued interest and all other charges	434,352 01	
		$ 896,537 86

Appropriation of Profits

Dividend for year	$ 320,000 00	
Reserve for Income Taxes	79,699 14	
Transfer to Pension Fund	10,000 00	
Balance carried forward	486,838 72	
		$ 896,537 86

APPENDIX AK

Exhibit 64

MONTREAL TRUST COMPANY

Balance Sheet, December 31, 1933

LIABILITIES

Capital Account:		
Capital	$ 2,000,000 00	
Reserve	2,500,000 00	
Profit and Loss—Credit Balance as per statement submitted herewith	486,838 72	
	$ 4,986,838 72	
Dividend declared and unpaid	80,000 00	
Guaranteed Accounts, etc.	2,695,574 60	
Other Liabilities not included in the foregoing	127,293 29	
		$ 7,889,706 61
Guaranteed Trust Account:		
Trust Funds for Investment	$ 17,963,207 44	
		$ 17,963,207 44
Estates, Trusts and Agency Account:		
Estates, Trusts and Agency Account	$ 799,910,729 21	
		$ 799,910,729 21
		$ 825,763,643 26

H. S. HOLT,
President.

F. G. DONALDSON,
General Manager.

To the Shareholders Montreal Trust Company.

We have examined the above Balance Sheet dated December 31, 1933, with the books of the Company at the Head Office in Montreal, in which are incorporated the returns from the Branches certified by the respective Managers, and have received all the information and explanations we have required.

We have checked the cash and verified the securities of the Company and the Trust Assets held at the Head Office of the Company as at December 31, 1933, and during the year we attended at five of the Company's Branches and then checked the cash and verified the securities of the Company and the Trust Assets held by those Branches.

In our opinion the Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as at December 31, 1933, according to the best of our information and the explanations given to us and as shown by the books of the Company and the returns from the Company's Branches.

DELOITTE, PLENDER, HASKINS & SELLS,
Auditors.

231 St. James Street,
Montreal, January 26, 1934.

APPENDIX AL

Exhibit 65

Filed May 23, 1934, by Mr. W. M. Wilson, for the Vice-President, the Canadian Bankers' Association

Mr. Chairman and Gentlemen,—If you examine carefully the factors which have led to any over-capitalization or over-expansion which may have occurred in a Canadian industry, I believe you will find that neither the prime responsibility nor even any material measure of the responsibility for this development can justly be laid at the doors of the banks in this country.

During the period of say, the last ten years no plan to enlarge the capital structure of any industry was, so far as I am aware, conceived by or launched on the initiative of a Canadian bank. I believe it is true also that no Canadian bank took a part in proposing any industrial merger, or in framing the terms upon which any such merger might be arranged and carried into effect.

To the best of my knowledge the banks had no connection with any transactions of this nature until the negotiations between the parties concerned had been concluded. Then it is true that loans were made by the banks to enable the wholesale purchaser of the new securities to finance his commitment during the period he required to market them at retail but that form of financing for reputable dealers is a normal function of the banks.

To permit a fair survey to be made I would ask you to cast your minds back to the conditions existing when most of these securities were distributed. Industry during the three years ending with 1929 was very active. Production, though large and increasing, was barely able to keep pace with consumption so that manufacturers, instead of having to contend with swollen inventories of finished goods, were put to it to fill the volume of orders which kept pouring in upon them.

The dealers in securities who during that period applied for loans to finance the purchase of security issues represented the leading investment houses in this country—men of standing, experience and good repute. The securities which these dealers were offering to the public were accompanied by an analysis which their firms had made of the relative business, a record of its past earnings and an estimate of the future market prospects of its product. The evidence which they submitted warranted the view that the offerings were legitimate and that an investment in these securities would be exposed to no greater risks than those normal hazards to which all commercial undertakings are of necessity subject.

I would not have you think that in order to absolve the bankers I am trying to place upon the shoulders of others any blame that may be due. I would emphasize that it is always a matter of extreme difficulty to estimate with even reasonable accuracy the potential earning power of any industry for this involves an attempt to foresee the various domestic and international political, financial, and economic factors which may arise in future and to weigh the effect which they might have on the business in question. The point which I am trying to make is that in the period through which we were then passing it was an almost superhuman feat, even with the highest possible degree of good faith, for anyone to keep his judgment completely free from any tinge of optimism.

Some part of our troubles may be due to over-expansion and over-capitalization but undoubtedly the principal cause has been the drastic and unexpected curtailment in the volume of our exports, and a lesser one the reluctance of our own people who have money to spend it as they used to do. The whole world developed an unwillingness to buy in anything like the former volume, and for what they did take they offered greatly decreased prices.

I am satisfied that up to 1929 no one, either in Canada or elsewhere, conceived the possibility of so sudden and severe a collapse in markets and prices as has since taken place. I am sure that bankers, skeptical as they were of the New Era theory of perpetual prosperity, did not dream of any such world catastrophe.

I would ask you to weigh these facts before seeking to measure the responsibility for and apportion the blame under this section of your inquiry. It is easy to look back now with the experience we have gained in the past five years and see where mistakes were made. It is easy also to say that this or that claim or statement has proved so grossly wrong that it could not have been made through a mere error in judgment but must have been presented deliberately with intent to deceive. To make such a charge is in the great majority of cases to ignore the startling changes which have since occurred in trade the world over.

Some industrial flotations there may have been for which too rosy a picture was painted in order to capitalize the popular speculative fever but these were few and far between. In any such cases I am convinced that no bank knowingly connived to make an issue a success

APPENDIX AM

Exhibit 66

THE ROYAL BANK OF CANADA

INCORPORATED 1869

Office of the President

Montreal, May 28, 1934.

T. L. McEvoy, Esq.,
Secretary,
Select Standing Committee on Banking and Commerce,
Ottawa.

Dear Sir,—At the hearing of the Sub-Committee in Montreal on the 23rd instant, I was asked to report the aggregate amount in which corporations, institutions and partnerships of which I was a Director or officer were indebted to The Royal Bank of Canada on certain dates. There had not been sufficient time for the bank to compile the necessary information for the earlier years mentioned, consequently the data for 1933 only was given. The earlier information has since been obtained, and the full reply to the question is therefore as follows:—

December 1, 1926 —	$2,920,394	Advances
December 1, 1927 —	4,095,758	"
December 1, 1928 —	8,401,452	"
December 1, 1929 —	9,694,581	"
December 31, 1933 —	2,090,255	"

In every case loans were abundantly secured. On the same dates the corporations of which I was a Director had on deposit with The Royal Bank of Canada the following amounts:—

December 1, 1926 —	$14,077,363	Deposits
December 1, 1927 —	45,925,115	"
December 1, 1928 —	14,753,562	"
December 1, 1929 —	45,679,422	"
December 31, 1933 —	28,000,000	"

Advances as at December 31, 1933, did not include our share of the loan to the Canadian Pacific Railway Company which, as you know, is guaranteed by the Dominion of Canada.

Yours truly,

H. S. Holt.

Summary of Amendments to Bill 18, An Act Respecting Banks and Banking

SUMMARY OF AMENDMENTS TO BILL No. 18, AN ACT RESPECTING BANKS AND BANKING,

SESSION OF 1934

Date proposed	Page of minutes	Proposed by Mr.	That Sec. No.	Be amended by	Disposition	Date	Page of minutes
March 6..	18	Hackett....	2 *(m)*	striking out "means," line 8, and substituting "includes"........	adopted.....	March 6	18
March 8..	22	Gagnon.....	2 *(m)*	inserting, line 4, after "honey," "maple products".............	adopted.....	March 8	22
March 8..	20	Mackenzie..	5 (1)	striking out "forty-four," line 4, and substituting "thirty-nine"	lost.........	March 22	36
March 8..	20	Mackenzie..	5 (3)	striking out "forty-four," line 3, substituting "thirty-nine".....	withdrawn..	March 22	36
March 8..	20	Spencer.....	12	by adding the following: "2 *(a)*. Shares shall be subscribed for and held by or for the beneficial ownership of British subjects ordinarily resident in Canada".....................	lost.........	March 22	36
March 8..	20	Coote.......	18	striking out "five" in second line of paragraph *(c)*, (1) and substituting "seven" therefor; striking out "three" at the end of the paragraph and substituting "a majority of the Board"......................	lost.........	April 24	50
March 13..	23	Spencer.....	20	adding the following: "(4). No Minister of the Crown in the Dominion Government shall be elected or continue to be a director of a bank"...........	withdrawn..	April 24	50
March 22..	36	Gagnon.....	20	striking out "in the Dominion Government" in the next preceding amendment............	withdrawn..	April 24	50
April 24..	50	Gagnon.....	20	adding the following "(4). No Minister of the Crown in the Dominion Government or in any Provincial Government shall be elected or continue to be a director of a bank."......	lost (R)....	April 24	50
March 8..	20	Irvine......	20	inserting the following: "(5). No person shall be elected or continue to be a director of more than one bank at any time, and he shall be disqualified to act as a director of the bank if he is at the same time a director of or partner in any firm, company or corporation which is indebted to or applies for any loan or advance from, or has any financial relations with, the bank of which he is a director."......................	lost.........	April 24	50
March 8..	20	Power......	21	adding thereto the following: "(5). No person shall be elected or appointed or shall continue to hold office as a director who, *(a)* is not a British subject ordinarily resident in Canada, or"...................	withdrawn.	April 26	54
				(b) is a director of any Trust Company, Insurance Company, Investment or Loan Company, or of any financial institution doing public business."........	lost (R)....	April 26	54
March 8..	21	Irvine......	29	adding, at the end of (2), the following: "but in no case shall the salary or remuneration of the president, vice-president general manager or any officer of a bank exceed the remuneration of the Prime Minister of Canada for the same year"...	lost.........	April 24	51

(R) in disposition column indicates a recorded vote.

Date proposed	Page of minutes	Proposed by Mr.	That Sec. No.	Be amended by	Disposition	Date	Page of minutes
April 24..	49	Irvine......	29	adding, at the end of (2), the following: "such officers, clerks and servants may have the right to organize for the purpose of protecting their interests in regard to such matters as wages, salaries, hours of labour and general working conditions"..................	lost (R)....	May 15	76
March 8..	21	Spencer.....	31	striking out (6) and substituting: "(6) A shareholder shall not vote by proxy, but shall give to the Minister, in writing by registered post, instructions as to the manner in which he desires to vote on any business of the meeting. In any such case the Minister shall inform the scrutineers appointed at the meeting of the instructions so received and the scrutineers shall record the vote of each such shareholder in accordance with instructions so given"	lost.........	April 24	51
March 8..	21	Irvine......	32	striking out (2) and substituting: "(2) No such by-law shall come into operation or be of any force and effect, nor shall a certificate approving thereof be issued by the Treasury Board unless and until such increase of the capital stock of the bank has been authorized by Act of Parliament".......	lost (R)....	April 24	51
March 15..	28	Irvine......	53	inserting after "value," in the second line of paragraph *(k)* (3), "together with a full list of such securities"..............	lost.........	April 24	52
March 15..	28	Irvine......	53	inserting after "value," in the second line of paragraph *(l)* (3), "together with a full list of such securities"..............	lost.........	April 24	52
April 24..	52	Ralston.....	53	inserting in (2) after "part," in the third line, "the amount of the"	adopted....	April 24	52
April 24..	52	Ralston.....	53	inserting in (3), after "part," in the first line, "the amount of"	adopted....	April 24	52
March 15..	28	Coote.......	53	adding the following as sub-paragraph *(p)* of (2) "*(p)* The amount of deposits and loans for each province and the average rate of interest charged in each province"..............	lost.........	April 26	55
				Underlined words..............	withdrawn..	April 26	55
March 15..	28	Coote.......	53	adding the following as subparagraph *(z)* of (3): "*(z)* Classification of total loans for different industries or services in such form as may be approved by the Minister".............	withdrawn..	April 26	55
March 13..	23	Rhodes.....	53	striking out (4) and substituting: "(4) The Governor in Council shall have power from time to time to make such amendments and additions to the items required to be set forth in the said statement as he may deem expedient"........	adopted....	April 26	55
March 15..	28	Spencer.....	53	inserting the following as (8a): "For classification, see p. 28"	withdrawn..	April 26	55
May 17..	85	Morand.....	53	adding the following as (10): "Classification of employees"	adopted....	May 17	85
				For details of classification, *see*..	....	....	85
May 17..	85	Coote.......	53	inserting in (10) after "information," "in regard to employees in Canada"..................	adopted....	May 17	85

Date proposed	Page of minutes	Proposed by Mr.	That Sec. No.	Be amended by	Disposition	Date	Page of minutes
April 26..	53	Duff........	55	striking out (17) and substituting "(17) new section *re* auditors revised......................	adopted....	May 15	76
				For revised amendment *see*....	....	....	59
May 17..	84	Geary......	55	adding the words "or under the authority of the Parliament of Canada" after the word "Canada" in the last line of (1)....	dropped....	May 17	84
March 8..	21	Coote.......	57	inserting in (1), after "dividends," in third line, "not exceeding the rate of six per centum per annum"...........	withdrawn..	May 3	59
May 3..	59	Coote.......	57	inserting in (1), after "dividends," in third line, "not exceeding six per centum per annum on paid up capital of the bank plus such amount as has been accumulated from the proceeds received from the sale of the capital stock of the bank"......................	lost.........	May 3	59
May 3..	59	Irvine......	57	inserting after "dividends," in (1), "not exceeding the rate of six per centum per annum on the paid up capital stock plus accumulated rest or reserve funds"........................	lost........	May 3	59
May 3..	59	Rhodes.....	59	striking out, in (4), "always be equal to," in fifth line, and substituting "subject to the provisions of the Bank of Canada Act, be not less than"	adopted....	May 3	59
April 26..	53	Rhodes.....	60	striking out the proviso and substituting: "Provided, however, that the Governor in Council shall have power from time to time to make such amendments and additions to the items required to be set forth in the said schedule as he may deem expedient..............	adopted....	May 3	60
April 24..	48	Rhodes.....	61	adding the following: "(4) In the case of a bank authorized to commence business after the day on which this section comes into force, the said bank shall be subject to the provisions of this section as if it had been authorized to commence business on the day on which this section comes into operation"..................	adopted....	May 3	60
May 3..	62	Rhodes.....	64	deleting (6) and substituting "The circulation fund shall bear interest at the rate of three per centum per annum"	withdrawn..	May 15	77
May 3..	62	Rhodes.....	64	inserting in (8) after "circulation fund" in line 5, "and all interest due or accruing due thereon"	adopted....	May 15	77
May 15..	77	Rhodes.....	64	adding after (6), "Such fund shall bear interest at the rate of three per centum per annum"	adopted....	May 15	77
May 3..	62	Rhodes.....	66	inserting after "payment" in line 3 of (2) "and all interest due or accruing due to such bank thereon".........................	adopted....	May 15	77
March 8..	21	Spencer.....	75	adding to (2) the follwing: *(g)* lend money or make advances in excess of ten per centum of its paid-up capital and reserve to any one per son,firm or corporation without the consent of the Executive Committee of the Bank of Canada.........	lost.........	May 3	60

Date proposed	Page of minutes	Proposed by Mr.	That Sec. No.	Be amended by	Disposition	Date	Page of minutes
May 3..	60	Coote.......	75	substituting "without the consent of the Inspector General of Banks" for words underlined above..........................	lost.........	May 3	60
May 3..	60	Irvine......	75	adding to (2) the following: *(g)* Lend money or make advances in excess of ten per centum of its paid-up capital and reserve to any one person, firm or corporation.......................	lost.........	May 3	60
May 17..	84	Rhodes.....	75	inserting "firm" before "company" in line 3 of *(f)* of (2)....	adopted....	May 17	84
May 8..	72	Rhodes.....	75	inserting in (2) the following as *(g)*: "*(g)* Permit the name of a bank to appear, except as a banker for receiving applications, upon any prospectus or advertisement, unless such prospectus or advertisement is issued by or on behalf of the Government of Canada or of any province thereof, or of any city or municipality or of any railway, express, telegraph or telephone company the rates of which are fixed or the tariff of the the tolls of which are approved by the Board of Railway Commissioners for Canada, or unless the securities to be issued pursuant to the prospectus or advertisement are guaranteed by the Government of Canada or any province thereof..................	adopted....	May 15	77
May 17..	84	Rhodes.....	75	inserting "company" after "firm" in line 3 of (3)................	adopted....	May 17	84
May 15..	78	Rhodes.....	75	striking out "agent or manager" in line 1 of (4) and substituting "manager or other officer"....	adopted....	May 15	78
March 8..	21	Coote.......	75	adding thereto the following as (5): The bank shall not either or indirectly engage in stock market transactions nor lend money or make advances from the funds of the bank to any director or officer of the bank, or to any other person, with or without security, which moneys are to the knowledge or information of any director or officer of the bank to be used in stock market transactions or speculations nor shall the bank sell or hold shares or indirectly assist any person, firm, corporation or company to maintain, raise or lower the market price of any stock or to control the market price thereof.........	lost.........	May 3	60
March 13..	23	Howard....	76	striking out (2) and substituting: (2) The bank may, after the debt has accrued and become payable, sell such shares, but consent of the owner of the shares must be obtained before selling. And in case the bank and its debtor cannot agree the whole matter shall be submitted to the Governor of the Bank of Canada for his decision, which decision shall be binding on both parties........	lost.........	May 3	61

Date proposed	Page of minutes	Proposed by Mr.	That Sec. No.	Be amended by	Disposition	Date	Page of minutes
March 13..	24	Howard....	76	striking out in (3) "upon the sale being made" and substituting "upon the decision of the Governor of the Bank of Canada being received".............	withdrawn..	May 3	61
March 13..	24	Howard....	77	striking out in (1) all the words after "Act" in line 10 down to and including "same" in line 13	lost.........	May 3	61
March 13..	24	Casgrain....	88	adding after "months" in line 11 of (7) "and any claim by an unpaid vendor of or in respect to such products, wares, goods and merchandises to the amount remaining unpaid"; by adding after "remuneration" in line 13 of (7)" and such claim of an unpaid vendor".........	lost (R)....	May 4	64
March 13..	24	McGibbon..	88	adding to (7) the following proviso: see page 24.............	lost.........	May 4	64
March 22..	35	Perley...... (Qu'Appelle)	88	adding the following to (8) "and for the purchase of binder twine upon the security of any of the crop with respect to which such binder twine is to be used....	withdrawn..	May 4	64
May 4..	64	Perley...... (Qu'Appelle)	88	adding the following to (8) "and for the purchase of binder twine upon the security of the crop grown by the borrower and which is about to be harvested"...................	adopted....	May 4	65
May 4..	64	Perley...... (Qu'Appelle)	88	substituting the following as (9) "The security taken under subsection (8) of this section for money lent for the purchase of . . . . . binder twine, may be taken in the relevant and appropriate form set forth in Schedule E.................	adopted....	May 4	65
May 4..	65	Perley...... (Qu'Appelle)	88	inserting "or binder twine" after "seed grain" in lines 3 and 8 of (10).........................	adopted....	May 4	65
May 15..	78	Rhodes.....	88	by deleting "on and" in line 4 of (19).........................	adopted....	May 15	78
May 15..	78	Hackett....	88	inserting the following as (29): see page 78..................	adopted....	May 15	78
May 15..	78	Ralston.....	88	inserting "or other written communication" after the words "prepaid telegram" in (29)....	adopted....	May 15	78
March 13..	24	Casgrain....	89	striking out all the words commencing with "who" in line 9 of (2) and substituting "of or in respect to such products, goods, wares, and merchandises to the amount remaining unpaid"	lost.........	May 4	65
March 13..	24	Beynon.....	91	striking out all the words after "and" in line 5 of (1) and substituting: see page 24..........	lost (R)....	May 4	66
May 17..	85	Coote.......	91	adding after "dollar" in last line of (1) "Provided further that when the advance or loan is not in excess of twenty-five dollars, and the interest or discount thereon amounts to less than fifty cents, the maximum charge shall not exceed fifty cents"......................	adopted....	May 17	85
May 8..	67	Rhodes.....	95	striking out *(b)* of (1) and substituting "*(b)* from time to time pay any or all of the principal thereof, and any or all of the interest thereon, to or to the order of such person, unless before such payment the money so deposited in the bank is lawfully claimed as the property of some other person....	adopted....	May 8	67

Date proposed	Page of minutes	Proposed by Mr.	That Sec. No.	Be amended by	Disposition	Date	Page of minutes
April 24..	49	Lawson.....	96	repealing (2) and (3) and substituting the following: for text, see page 49....................	adopted....	May 8	67
March 13..	25	Rhodes.....	112	deleting in (1) "may be deemed necessary as a result of the Bank of Canada being authorized to commence business" and substituting "as he may deem expedient"..............	adopted....	May 8	68
May 8..	73	Rhodes.....	113	striking out (2) and substituting "(2) The bank shall within thirty days after the general meeting transmit or deliver to the Minister a return showing the name and address of each director elected thereat together with a list of the banks, firms and companies of which he is a director or partner, and the names of the president and vice-presidents; and should any vacancy occur in the membership of the board of directors or in the office of president or vice-president, the bank shall forthwith notify the Minister of the name and address of the person by whom the vacancy has been filled together with a list of the banks, firms and companies of which he is a director or partner"...........................	adopted....	May 15	80
May 15..	80	Rhodes.....	113	deleting "and" after "firms" in line 3 of (2) as amended above and inserting "and corporations" after "companies" in line 4; deleting "and" after "firms" in line 8 and inserting, after "companies," "and corporations"....................	adopted....	May 15	80
March 8..	22	Irvine......	114	inserting the following as (7) (i) (ii) (iii): disposition of unclaimed bank balances. For text see page 22...............	lost.........	May 8	69
March 8..	22	Irvine......	114	adding thereto the following: "(8a) The bank shall within thirty days after the close of each calendar year transmit or deliver to the Minister a return shewing the names and addresses of the directors of the bank and the banks, firms and companies of which they are directors or partners".....	adopted....	May 8	69
April 26..	53	Rhodes.....	114	adding the following: "(10) The bank shall once in each year transmit or deliver to the Minister a return of all loans made by the bank within Canada outstanding at a date to be specified by the Treasury Board, classified according to industries and businesses, and the Treasury Board may make such regulations as may be deemed necessary to give effect to the provisions of this subsection"..................	adopted....	May 8	69

Date proposed	Page of minutes	Proposed by Mr.	That Sec. No.	Be amended by	Disposition	Date	Page of minutes
May 8..	69	Ralston.....	114	inserting in (10) after "return of," in line 2, "the aggregate amount of"..................	adopted....	May 8	69
May 15..	80	Coote.......	114	inserting the following "(11) Classification of deposits", for text, see page 80.............	adopted....	May 15	80
May 8..	69	Coote.......	117	striking out "The Association" and substituting "The Bank of Canada" in (1)............	lost.........	May 8	69
May 8..	70	Coote.......	117	striking out "The Association" and substituting "The Minister" in (1)..................	adopted....	May 8	70
May 8..	70	Ralston.....	117	inserting after "appoint" in (1), "in writing".................	adopted....	May 8	70
May 8..	70	Coote.......	117	striking out "The Association" in (2) and substituting "The Minister"...................	adopted....	May 8	70
May 8..	70	Ernst.......	118	striking out the section and numbering 117 (2), as amended, 118	adopted....	May 8	70
May 8..	70	Ernst.......	124	striking aut paragraph *(a)*.......	adopted....	May 8	70
May 8..	70	Coote.......	124	inserting in *(f)*, after "penalties," "not exceeding the sum of one thousand dollars"............	adopted....	May 8	70
May 15..	82	Rhodes.....	125	deleting from (2) "plus the amount of the notes of the bank issued and in circulation elsewhere than in Canada"...	adopted....	May 17	84
March 15..	28	Coote.......	138	striking out the section.........	lost.........	May 8	70
May 8	71	Spencer.....	138	striking out (3).................	lost (R)....	May 8	71
May 8..	71	Spencer.....	138	striking out (4).................	lost.........	May 8	71
May 4..	63	Coote.......	138	adding thereto "(5) The provisions of this section shall not apply to scrip issued by any municipality or school district"......................	lost (R)....	May 8	71
May 4..	63	Irvine......	138	inserting the following: "Provided that this section shall not be construed to prohibit the issue and exchange of trading orders and merchandise certificates, not redeemable in cash, for use and exchange amongst its members by legally constituted co-operative trading organizations in any Province of Canada"..........	lost.........	May 8	71
May 8..	72	Ernst.......	151	deleting *(f)* and "such bank shall incur a penalty not exceeding five hundred dollars"........	adopted....	May 8	72
May 8..	72	Ernst.......	151	deleting "or" and substituting "or" after "dollars".........	adopted....	May 8	72
May 8..	72	Ernst.......	151	inserting, after "dollars," "such bank shall incur a penalty not exceeding five hundred dollars"......................	adopted....	May 8	72
May 8..	72	Jacobs......	151	inserting the following as (2), for text see page 72...............	adopted....	May 8	72
May 15..	80	Rhodes.....	151	striking out the section as amended on May 8 and substituting (151): for text see pp. 80 and 81.....................	adopted....	May 15	81
May 15..	81	Rhodes.....	151	inserting "firm" in (2), line 3, after "any,".................	adopted....	May 15	81
May 15..	81	Rhodes.....	151	inserting "company" after "firm" in line 3 of (3)................	adopted....	May 15	81
May 15..	81	Rhodes.....	151	substituting "officer" for "official" in line 1 of *(a)* of (4)......	adopted....	May 15	81

Date proposed	Page of minutes	Proposed by Mr.	That Sec. No.	Be amended by	Disposition	Date	Page of minutes
April 26..	54	Rhodes.....	160	adding the following "(2) Every bank which neglects to transmit or deliver to the Minister, within the time prescribed by regulations of the Treasury Board, a certified return showing all loans made by the bank within Canada at a date to be specified by the Treasury Board classified according to industries and businesses, shall incur a penalty of fifty dollars for each and every day during which such neglect continues"	adopted....	May 8	72
May 8..	73	Ralston.....	160	inserting in (2) "the aggregate amount of after "showing"..	adopted....	May 8	73
May 8..	73	Rhodes.....	160	adding the following "(3) Every bank which neglects to transmit or deliver within thirty days after the general meeting a return showing the name and address of each director elected thereat, together with a list of the banks, firms and companies of which he is a director or partner or which neglects to transmit or deliver within thirty days after the selection of a person to fill a vacancy in the membership of the board of directors or in the office of president or vice-president, a similar return respecting such person, shall incur a penalty of fifty dollars for each and every day during which such neglect continues"	adopted....	May 15	82
May 15..	82	Rhodes.....	160	inserting "and corporations" after "companies" in line 4 of (3)...........................	adopted....	May 15	82
May 8..	73	Willis.......	166	deleting (1) and substituting (1) Every person using the word 'bank,' 'banker,' or 'banking,' or the words 'investment banker,' 'savings bank,' 'banking company,' 'banking house,' 'banking association,' or 'banking institution,' either alone or in combination with other words, or any word or words of import equivalent to any of the foregoing in any foreign language, in a sign or in an advertisement or to describe his business or any part of his business, without being authorized so to do by this Act, or by some other Act of the Parliament of Canada, is guilty of an offence against this Act....	withdrawn..	May 15	79
May 15..	79	Geary......	166	deleting from the above amendment, "or the words 'investment banker,' 'savings bank,' 'banking company,' 'banking house,' 'banking association,' or 'banking institution,' either alone or in combination with other words"................	withdrawn..	May 15	79
May 4..	65	Perley...... (Qu'Appelle)	Schedule "E"	be added to list of Schedules and that Schedules E, F, G, H, and I to this Act become respectively F, G, H, I, and J. For text of Schedule, see p. 65.....	adopted....	May 8	74

Date proposed	Page of minutes	Proposed by Mr.	That Sec. No.	Be amended by	Disposition	Date	Page of minutes
May 17..	85	Coote.......	Schedule F (old E)	adding thereto "The said live stock are now owned by me and are now in my possession and are free from any mortgage, lien or charge thereon and have been fully paid for by me"....	withdrawn..	May 17	85
March 13..	25	Spencer.....	Schedule H (old G)	striking out item 25, under heading "assets" and substituting "25. Bank premises, at actual, or original cost; giving particulars as to encumbrances thereon, including amounts borrowed from controlled corporations; the total written off for depreciation; losses of the bank charged to this account (if any); and the particular reserves, funds or contingencies of the bank, to which these expenditures are charged in returns to the Minister"......	lost.........	May 17	86
March 13..	25	Irvine......	Schedule H (old G)	adding under "assets": "29a. Aggregate amount of loans to companies or corporations of which one or more directors are on the Board"............	withdrawn..	May 8	73
May 17..	87	Coote.......	Schedule H (old G)	inserting the following as additional information to be supplied in the said Schedule: Average rate of interest paid on deposits..................; Average rate of interest charged on loans or advances.......	lost.........	May 17	87

Summary of Amendments to Bill 19,
An Act to Incorporate the Bank of Canada.

SUMMARY OF AMENDMENTS TO BILL 19. AN ACT TO INCORPORATE THE BANK OF CANADA

Date proposed	Page of minutes	Proposed by Mr.	That Sec. No.	Be amended by	Disposition	Date	Page of minutes
May 17..	88	Spencer.....	Preamble	inserting after "Canada," line 2, "to make use of the national credit at cost for governmental services and"................	lost.........	June 5	124
March 15..	29	Hon. Mr. Mackenzie	Bill 19	declaring that the proposed Bank of Canada should be owned and controlled by the Dominion of Canada..............	lost (R)....	May 17	89
March 15..	29	Coote......	Bill 19	permitting the ownership of the shares of the proposed Bank of Canada to be vested in the Government of the Dominion of Canada...................	lost.........	May 17	89
June 5..	117	Hon. Mr. Rhodes	5	adding thereto the following: "(2) In addition to the Members of the Board as constituted by (1) of this section, the Deputy Minister of Finance or, in case of his absence or incapacity at any time, such other officer of the Department of Finance as the Minister may nominate for the time being, shall be, by virtue of his office or such nomination, as the case may be, a member of the Board, but shall not have the right to vote"......	adopted....	June 5	124
March 20..	31	Raymond..	6	striking out paragraph *(a)* of (2) and substituting "*(a)* is not a Canadian national; or.........	lost (R)....	May 17	89
March 20..	31	Raymond..	6	by adding to paragraph *(d)* of (2) after "Canada," "or elsewhere"	withdrawn	June 5	118
June 5..	118	Hon. Mr. Rhodes	6	striking out *(d)* of (2) and substituting: "*(d)* is a director, officer or employee of any other bank or financial institution or has an interest as a shareholder in any bank or other financial institution"..............	adopted....	June 5	118
May 29..	98	Hon. Mr. Rhodes	6	adding the following as paragraph *(e)* of (2): "*(e)* has reached the age of seventy-five years".......................	adopted....	May 29	98
May 29	97	Hon. Mr. Ralston	6	adding the following as paragraph *(f)* of (2): "*(f)* is a bankrupt or is insolvent"...........	lost.........	May 29	97
May 29..	94	Hon. Mr. Rhodes	7	striking out "or at a meeting of shareholders" at end of (1) and substituting "or by the Executive Committee or by a meeting of shareholders"..........	adopted....	June 5	118
June 5..	118	Hon. Mr. Rhodes	8	striking out (1) and substituting "(1) The Governor, Deputy Governor and Assistant Deputy Governor shall each be appointed as hereinafter provided for a term of seven years, or, in the case of the first Governor, Deputy Governor and Assistant Deputy Governor for such shorter period as the Governor in Council may determine....	adopted....	June 5	124
June 5..	118	Hon. Mr. Rhodes	8	adding the following: "(5) The Governor, Deputy Governor and Assistant Deputy Governor shall each hold office for the aforesaid term during good behaviour"..................	adopted....	June 5	124

(R) in disposition column indicates recorded vote

Date proposed	Page of minutes	Proposed by Mr.	That Sec. No.	Be amended by	Disposition	Date	Page of minutes
May 29..	94	Coote.......	9	providing that the Minister of Finance shall *ex officio* be a director of the Bank..........	withdrawn..	June 5	119
June 5..	119	Hon. Mr. Rhodes	9	striking out (1) and substituting (1) To provide for certain named provisional directors. For text, see p. 119...............	adopted....	June 5	119
May 31..	104	Hon. Mr. Ralston	9	providing for four shareholder directors and three state directors; in addition, the Governor and Deputy Governor are appointed or approved by the State. For text of amendment, see p. 104.....................	lost (R)....	June 5	119
June 5..	120	Hon. Mr. Rhodes	10	striking out (1) and substituting "(1) No person except a shareholder who is the registered owner of ten shares of the capital stock and who has paid all calls thereon shall be elected or shall continue to hold office as a director".........	adopted....	June 5	120
May 29..	96	White....... (Mt. Royal)	10	deleting from (2) "the directors shall be selected from diversified occupations, but".........	lost (R)....	May 29	96
June 5..	120	Hon. Mr. Rhodes	10	striking out "appointed or" in line 1 of (3)..................	adopted....	June 5	120
March 20..	31	Raymond..	10	striking out paragraph *(a)* of (3) and substituting "*(a)* is not a Canadian national; or"........	lost (R)....	May 29	97
June 5..	120	McGibbon..	10	deleting paragraph *(b)* of (3) viz.: "is a member of either House of Parliament or of a Provincial Legislature".............	adopted....	June 5	120
May 29..	99	Hon. Mr. Rhodes	10	adding the following to (3) "*(d)* has reached the age of seventy-five years"..................	adopted....	May 29	99
May 29..	95	Hon. Mr. Ralston	10	striking out "Board" in line 1 of (4) and substituting "Governor"; striking out "by resolution of the Board approved" in line 3 of (4)..................	lost.........	May 29	97
May 29..	95	Hon. Mr. Rhodes	12	striking out the section and substituting: "12. The members of the Board shall select a Chairman from amongst their number".....................	adopted....	May 29	98
May 31..	104	Hon. Mr. Ralston	13	requiring ratification of the Acts and decisions of the Executive Committee by the Board. For text of amendment, see p. 104...........................	lost.........	June 5	120
May 31..	105	Hon. Mr. Ralston	13	empowering Deputy Minister of Finance to attend meetings of the Board and of the Executive Committee in a consultative capacity. For text of amendment, see p. 105........	withdrawn..	June 5	120
May 29..	95	Hon. Mr. Rhodes	13	striking out "acting by direction of the Board" in (1) and substituting "selected by the Board"......................	adopted....	May 29	98

Date proposed	Page of minutes	Proposed by Mr.	That Sec. No.	Be amended by	Dispostion	Date	Page of minutes
May 29	95	Hon. Mr. Rhodes	13	striking out (3) and substituting "(3) Except when the Board is in session the Executive Committee shall determine the minimum rates at which the Bank is prepared to discount or rediscount bills or to make advances and the Bank shall at all times make public the rates at which it is prepared to discount or rediscount bills or to make advances"..........	adopted....	May 29	98
June 5..	120	Hon. Mr. Rhodes	13	adding the following: "(5) In addition to the members of the Executive Committee as constituted by (1) of this section, the Deputy Minister of Finance or, in case of his absence or incapacity at any time, such other officer of the Department of Finance as the Minister may nominate for the time being shall be, by virtue of his office or of such nomination, as the case may be, a member of the Executive Committee but shall not have the right to vote"...............	adopted....	June 5	120
May 31..	105	Hon. Mr. Ralston	13A	adding the following new section: "13A. No action or decision of the Board of Directors, or of the Executive Committee, shall have any effect unless the same is concurred in by the Governor, or in his absence or incapacity, by the Deputy Governor"...........	adopted (R)	June 5	121
March 15..	29	Power......	14	Striking out (2) and (3).........	lost.........	May 29	99
May 29	99	Spencer.....	14	inserting after "may" in line 1 of (6) "by by-law".............	adopted....	May 29	99
March 15..	30	Hon. Mr. Mackenzie	16	adding thereto: "The Minister shall at any time have the right on behalf of the Dominion of Canada to purchase such shares in whole or in part at not more than par.........	amended...	May 29	100
May 29..	100	Hon. Mr. Mackenzie	16	adding thereto: "The Minister shall at any time have the right on behalf of the Dominion of Canada to purchase all shares held by the public at not more than par"..........	lost (R)....	May 29	100
May 29..	95	Coote.......	16	striking out "Governor in Council" in (1) and substituting "Parliament of Canada".....	adopted....	May 29	99
May 29..	99	Geary......	16	inserting after "passed" in line 3 of (1) "by the Board and ratified".......................	adopted....	May 29	99
March 15..	29	Irvine......	16	inserting after "share certificates" in line 2 of (2) "of which the majority shall always be held by and vested in the Minister on behalf of His Majesty and the balance of such certificates"; striking out "which" in line 2 of (2)................	lost.........	May 29	99
March 20..	31	Bowman....	16	striking out "one hundred dollars" in lines 2 and 3 of (2) an substituting "fifty dollars"...	adopted....	May 29	99
May 29..	100	Hon. Mr. Rhodes	16	inserting after "at" in line 3 of (2) "not less than"..............	adopted....	May 29	100

Date proposed	Page of minutes	Proposed by Mr.	That Sec. No.	Be amended by	Disposition	Date	Page of minutes
May 29	95	Coote	16	striking out "Board" in line 4 of (4) and substituting "Minister"	adopted	May 29	100
March 15	30	Bowman	16	striking out "twenty-five dollars" in line 1 of (5) and substituting "twelve dollars and fifty cents"	adopted	May 29	100
March 15	30	Spencer	16	inserting the following: "(7a) The Minister may at any time call in shares of stocks held by the several shareholders on paying par therefor and three months interest"	lost	May 29	101
June 5	121	Hackett	16	inserting the following after (8) "or a trustee holding shares in trust for the beneficial interest of a British subject or corporations qualified to hold such shares"	lost (R)	June 5	121
May 29	101	Hon. Mr. Ralston	18	inserting after "shall," in line 7, "*ipso facto* on the expiration of three months from the mailing at Ottawa by registered mail of such requirement in the form of a notice in writing by the Minister to such shareholder"	adopted	May 29	101
March 15	30	Bowman	19	striking out "twenty-five dollars" in line 3 of (1) and substituting "twelve dollars and fifty cents"	adopted	May 29	101
May 29	95	Hon. Mr. Rhodes	20	amending paragraph *(b)* of (1) to read: "*(b)* effect transfers of funds by telegram, letter or other method of communication, and buy and sell transfers effected by such means, trade acceptances, bankers' acceptances, bankers' drafts, and bills of exchange drawn in or on places outside of Canada and having a maturity not exceeding ninety days excluding days of grace, or not exceeding ninety days after sight excluding days of grace, from the date of acquisition by the Bank."	adopted	May 29	101
May 29	95	Coote	20	striking out all words after "Bank" in line 4 of *(d)* of (1)	withdrawn	May 31	106
May 31	106	Hon. Mr. Rhodes	20	striking out "twice" in line 7 of *(d)* of (1) and substituting "three times"	adopted	May 31	106
June 5	121	Hon. Mr. Rhodes	20	inserting in line 7 of *(d)* of (1) "of a par value" immediately preceding "in excess"	adopted	June 5	121
May 29	95	Hon. Mr. Rhodes	20	amending *(g)* of (1) to read as follows. For text see p. 95	adopted	May 31	107
May 31	103	Hon. Mr. Rhodes	20	amending *(h)* of (1) to read as follows. For text, see page 103	adopted	May 31	107
May 31	103	Hon. Mr. Rhodes	20	striking out "three" in line 2 of *(i)* of (1) and substituting "six"	adopted	May 31	107
May 31	103	Hon. Mr. Rhodes	20	inserting after "advances" in line 1 of *(j)* of (1) "for periods not exceeding six months"	adopted	May 31	107
May 31	103	Hon. Mr. Rhodes	20	inserting the following as *(j)* of (1). For text, see p. 103	withdrawn	June 5	121
March 20	31	White (Mt. Royal)	20	striking out "promissory notes" in line 4 of *(l)* of (1)	adopted	May 31	107
May 31	104	Hon. Mr. Rhodes	20	inserting after "Bank" in line 3 of *(m)* of (1) "or from any discount corporation doing the business described in *(i)* of this subsection"	withdrawn	June 5	121

Date proposed	Page of minutes	Proposed by Mr.	That Sec. No.	Be amended by	Disposition	Date	Page of minutes
May 29..	96	Coote.......	21	striking out "except the Bank for International Settlements" in *(b)*..........................	lost.........	May 31	108
March 15..	30	Hon. Mr. Lapointe	23	striking out (4) and substituting "(4) The notes shall be printed in the English and French languages and their form and material shall be subject to approval by the Minister"....................	lost (R)....	June 5	123
May 31..	104	Hon. Mr. Rhodes	23	adding the following to (4): "Provided that notes in either the French or the English language shall be available as required"	adopted (R)	June 5	123
May 29..	96	Irvine......	24	striking out (1) and (2)..........	lost.........	June 5	121
March 22..	35	Coote.......	25	striking out "and deposit liabilities" after "notes" in line 3 of (1)...........................	lost.........	May 31	108
May 29..	96	Spencer.....	25	striking out all words after "Bank" in line 2 of *(a)* of (2)..	lost.........	May 31	109
March 22..	35	Cooke......	25	striking out *(a)* of (2) and substituting "*(a)* gold coin and bullion and foreign exchange in the unrestricted ownership of the Bank to the amount of twenty-five per centum of the note issue"..................	lost.........	May 31	109
May 31..	104	Hon. Mr. Rhodes	25	striking out (2) *(a)* *(b)* *(i)* and substituting: For text, see p. 104......................	adopted....	May 31	110
May 31..	110	Hon. Mr. Rhodes	25	striking out "three months" in line 2 of (iii) of *(b)* of (2) and substituting: "ninety days excluding days of grace, or not exceeding ninety days after sight excluding days of grace"	adopted....	May 31	110
May 31..	110	Hon. Mr. Rhodes	25	striking out "foreign" in line 13 of (2) on page 13 of the Bill....	adopted....	May 31	110
March 22..	36	Coote.......	25	striking out "and liabilities" in line 4 of (3)..................	lost.........	May 31	110
May 31..	110	Geary......	25	inserting after "gold" in line 3 of (3) "equal to an amount not less than".....................	adopted....	May 31	110
May 31..	110	Hon Mr. Rhodes	25	inserting "deposit" before "liabilities" in line 4 of (3)........	adopted....	May 31	110
June 5..	122	Hon. Mr. Rhodes	26	striking out (1) and substituting "(1) Every chartered bank shall on and after the day on which the Bank is authorized to commence business maintain a reserve of not less than five per centum of its deposit liabilities within Canada and such reserve shall consist of a deposit with the Bank and of notes of the Bank held by such bank".......................	adopted....	June 5	122
June 5..	122	Hon. Mr. Rhodes	26	inserting the following as (2) and (3). For text, see p. 122.....	adopted....	June 5	122
June 5..	122	Hon. Mr. Rhodes	26	striking out "the preceding subsection" in line 2 of (2) and substituting "this section"; striking out "deposit maintained by it with the Bank" in line 6 of (2) and substituting "reserve maintained by the chartered banks"............	adopted....	June 5	122
June 5..	122	Hon. Mr. Rhodes	26	renumbering (2) and (3) to read (4) and (5)......................	adopted....	June 5	122
June 5..	122	Hon. Mr. Rhodes	26	striking out (4) and substituting the following "(6). For text, see p. 122....................	adopted....	June 5	122

Date proposed	Page of minutes	Proposed by Mr.	That Sec. No.	Be amended by	Disposition	Date	Page of minutes
March 22..	36	Duff........	28	striking out all words after "basis" in line 5 and substituting "of the current market value at the date of the relevant transactions"............	lost.........	June 5	115
March 15..	30	Spencer.....	30	striking out all words after "and" in line 5 down to and including "half-yearly" in line 8 and substituting "after deducting an amount equal to five per centum of the paid up capital which may be utilized for the payment of cumulative dividends at the rate of five per centum payable half-yearly"..........	withdrawn..	June 5	116
March 20..	31	Bowman....	30	striking out "six" in line 5 and substituting "five"...........	amended...	June 5	116
June 5..	116	Hon. Mr. Euler	30	striking out "five" and substituting "four and one-half".....	adopted (R)	June 5	116
June 5..	116	Hon. Mr. Ralston	33	striking out "three months" in line 1 of (2) and substituting "six weeks"..................	adopted....	June 5	116
May 31..	104	Hon. Mr. Rhodes	35	deleting "March" in line 2 of (1) and substituting "February"	adopted....	June 5	116
May 31..	104	Hon. Mr. Rhodes	35	deleting "twenty-five" in line 4 (2) and substituting "one hundred"; deleting "five hundred" in line 5 of (2) and substituting "one thousand"..............	adopted....	June 5	117
June 5..	117	Coote.......	35	adding to (3) the following: "But no person, other than the Minister, shall vote for more than fifty shares"..................	adopted....	June 5	123
June 5..	123	Hackett....	35	adding to (4) the following: "A trustee holding shares in trust for the beneficial interest of any qualified shareholder shall have one vote for each such share so registered in his name. In any case the trustee shall inform the scrutineers appointed at the meeting of the name of the British subject and/or the corporation for whom he holds the said shares in trust"	lost.........	June 5	124
June 5..	117	Hon. Mr. Rhodes	42	deleting "affairs" in line 2 of *(g)* of (1) and substituting "undertaking"......................	adopted....	June 5	117
June 5..	117	Jacobs.....	42	deleting (3)....................	adopted....	June 5	117
June 5..	124	Hon. Mr. Rhodes	43	deleting that section...........	adopted....	June 5	124

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